

Public Utilities

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A New Rôle for the Domestic Consumer in the Utility Drama

A modern innovation in the technique of politics

By HENRY C. SPURR

IN announcing his appointments to the new Power Authority of New York state, Governor Franklin D. Roosevelt made public the following statement:

"The members of the Power Authority are directed by the act of the legislature to organize for the purpose of improving the St. Lawrence river as an instrumentality of commerce and navigation and developing the hydroelectric power resources thereof in the interests of the people of this state. The development of this power shall under the law be considered particularly for the benefit of the domestic and rural consumers, to whom the power can be economically made available. Sale to and use by industry shall be a secondary purpose."

(The italics are mine.)

This is the New York legislative policy, with reference to power development specifically stated in the latest

statute on that particular subject.

This italicized statement shows us something new in political technique. It is different from that to which we have long been accustomed. In the landscape of political panaceas and bloc legislation the ultimate or domestic consumer seldom occupies the foreground. Any benefit he is supposed to get from political action is shadowy, secondary, and purely incidental.

Only in respect to utility service are our political leaders what might be termed "consumer conscious." They usually say nice things about labor employed in various industries, for instance, but when it comes to public utilities, including the electrical

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industry with which they are now busy, they do not even make a kindly gesture in favor of labor except in its rôle of consumer.

THIS departure from the customary political technique, in order to safeguard the interests of the domestic or ultimate consumer as against the supposedly opposing interests of capital and labor, has up to this time generally been confined to the utility business. According to the statement issued by Governor Roosevelt, however, in which he points out the new statutory policy of his state, all business dependent in any way upon electric service must in New York travel second class. The domestic consumer in so far as the development of power by the state is concerned is to sit at the first table.

This is not saying that such a policy is right or wrong, wise or unwise; it does, however, denote a complete change in political technique, does it not?

To take a single illustration of the prevailing technique, let us consider merchandising by public utility companies.

In any controversy over the propriety of the sale of appliances by utility companies to domestic consumers, whom do our political leaders seek to protect? What particular group have they in mind? The ultimate or domestic consumer? Observe that the attack is on the utility in all cases, but for whose benefit is it made? Is it not advanced on behalf of the regular or general dealer in appliances rather than for the good of the domestic consumer? That is where the technique differs from that

announced by Governor Roosevelt in respect to power developed by the state.

One of the favorite charges made by the anti-utility political leaders in the case of merchandising is that the utility companies can outsell the small appliance dealers; in other words, that they can sell at lower prices or on better terms. Assuming for the sake of the point that this is so, for whom is this underselling bad? For the domestic consumer? Not if low prices and favorable terms of payment are good for him.

Who is making the fuss about merchandising by public utility companies, the domestic consumer or the regular appliance dealer?

Answer: The appliance dealer.

In the political treatment of this question, who has one kind word to say for the domestic consumer?

Answer: No one.

Even the domestic consumer himself, in this instance, does not appear to be conscious of his own interest.

Again it should be stated that this is not saying that the usual political technique is right or wrong, wise or unwise. The only point that is being made now is that the New York technique in the development of water power by the state is a radical departure from the standard model.

You can supply plenty of illustrations of your own of legislation enacted "for the common good" in which the welfare of special interests is the direct consideration, and the welfare of the ultimate consumer is either very far in the background or nonexistent. You may recall farm relief and many other reliefs as being in point.

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THIS detour of the New York political leaders from the highway of political technique in favor of the domestic consumer rather than of business and of labor is, therefore, both interesting and important if sound.

The idea that the use of electric power by industry shall be considered by the state as a secondary purpose of power development seems to have been taken from the Canadian policy in respect to the distribution of power by the Hydro-Electric Commission of Ontario. There was an interesting bit of testimony on this subject given by Floyd L. Carlisle, chairman of the Board of the Niagara Hudson Power Corporation, before the commission on the revision of the public service law of New York state in 1929. It is as follows:

By Mr. Bonbright:

QUESTION: "And, Mr. Carlisle, is it your contention that the reason, or one reason why the domestic rates in Canada are lower than they are over here, is the fact that the Canadians are charging power customers more than we are charging over here?"

ANSWER: "I think that is one element."

QUESTION: "In that case I do not think I see how one can hold that view and at the same time make the point that the reason for quoting very low industrial rates over here, is that such rates make it possible to charge less to the lighting consumer."

ANSWER: "Professor, in the city of Buffalo, the user of any amount of power passes quickly into the 1½-cent class. It is very, very close to the cheapest rates in

the Hydro. No, the point I was making is that we have endeavored to have all classes of service on something of a comparable cost basis. They are, perhaps very properly, being a government-owned enterprise, they feel that because, we will say, 95 per cent of their customers are householders, that they should treat them in a different manner than they would treat an industry. We have gone on entirely the opposite theory, and I want to illustrate that by what has happened in certain cities in this state.

"We believe that the great prosperity of this state and the good of the consumer lies in the industrial life that grows up around his town. He pays an average of \$2.50 a month for his electricity in this locality. It is the lowest thing in his family budget. The effort made and the skill used and the business judgment rendered in selling this enormous amount of electricity which has built up these great factories here and the great payrolls is a big contribution, the true contribution that has come to the community."

How far the American policy of encouraging industry may have been responsible for the greater development of it on this side of the border than the other is a speculative matter about which opinions might well differ. But the desirability of a high and efficient business development would hardly be questioned. The domestic consumer of electric service must first have a job before he can become a consumer of anything. Most persons have to work or labor for a living. The worker has a twofold interest in business: first in his capacity of producer, the earner of the rewards of labor; and, second, in his capacity of consumer, his op-



Q"THE new political technique adopted by the New York state legislature emphasizes the importance of labor in its capacity as consumer and puts in second place the importance of labor in its capacity as a producer; in other words, it minimizes the importance of labor's opportunity to earn a livelihood. . . . This is a question which labor may well ponder over."

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portunity to enjoy to the fullest extent the fruits of his labor. This dual interest should be as carefully considered in dealing with the development of electric power.

IN considering the utility problem our political leaders generally appear to have overlooked entirely the interest of labor in its capacity of producer, the possessor of a job, and to have considered labor only in its capacity as consumer. Even the utility industry itself employs thousands of men and women whose interest in the prosperity of that industry as a creator of jobs is just as great as the interest of labor employed by other industries in their success and stability.

But if the new New York law that power developed by the state is to be considered primarily for the benefit of domestic and rural consumers and its sales to industry a secondary purpose is anything more than a political gesture, it means that labor in all other industries using electrical power is no longer to be given the consideration which political technique generally calls for. The usual idea is to stand for the protection of labor in its capacity as producer and not in its capacity as consumer. At least the primary purpose is to protect the laborer's job without reference to what may happen to him as a consumer. It is said to be of the utmost importance that labor shall have a job at high wages; that his interest as a consumer of the products of labor—that is, the prices that must be paid for those products—must yield to the importance of giving him a job at top wages. The New York policy as

announced by Governor Roosevelt would, as stated, reverse all of this.

IT must not be forgotten, however, that cheap electric power is a factor in almost every industry and, therefore, of indirect interest to thousands of workers in those industries. Any inadequacy or interruption of the utility service due to discriminatory political action would be felt by them. Therefore, a change in political technique which involves a discriminatory practice against industry that makes places for thousands of men and women, might well be viewed with some concern by labor. If labor should chance to look at the matter in this way, this political detour in New York may turn out to be somewhat bumpy for our political leaders.

MR. Carlisle's statement that certain persons believe that great prosperity of the state and the good of the consumer lies in the industrial life that grows up around his town, and that the contribution of the electric industry to the building up of these great large factories here and the big payrolls is a great contribution, the true contribution that has come to the community, it would seem worthy of careful consideration.

Are the believers in that policy right, or are they wrong? Should we hold that the true concern of the people of the state in the development of electric current lies primarily in their interest as domestic consumers and not in their opportunity to earn a livelihood?

If there were not enough electric current to serve both industrial consumers and domestic consumers, and there were no other power available

The Relative Importance of the Domestic and the Industrial Consumer—Politically

"IF there were not enough electric current to serve both industrial consumers and domestic consumers, and there were no other power available except electric power, and a choice had to be made as to which group of consumers should receive it, would it be better to limit the use of that service to industry or to household purposes or to industrial uses? . . . Which is of more importance to the domestic consumer of electricity, the encouragement of industry that gives him a job, or the saving of a few cents a month on his electric bill?"



except electric power, and a choice had to be made as to which group of consumers should receive it, would it be better to limit the use of that service to industry or to household purposes or to domestic uses? Which comes first in either savage or civilized life, getting food to eat or eating it? We must have food it is true but must we not get it before we can have it?

Which is of more importance to the domestic consumer of electricity, the encouragement of industry that gives him a job, or the saving of a few cents a month on his electric bill?

That the wisdom of preferring the domestic consumer of electricity over the industrial consumer may be debatable from the economic standpoint, whatever may be said of the policy politically, is brought on by a very simple case.

IN a little town in Maine there was an electric plant which served lighting customers at night. It was

also giving daytime service over a special wire to the one hotel in the town. This service was used regularly in the morning to operate toasters and a griddle and two afternoons a week for ironing; and sometimes to heat one of the cottages connected with the house.

The household customers wanted this daytime service also but could not get it because there was not enough to go around. They claimed they were being unjustly discriminated against. They took their complaint to the commission. This is what the commission said about it:

"The Belgrade Hotel enterprise, with what it brings to the town is the principal business of the community. There would be very little activity there without it. It is improbable if an electric plant could be maintained at all without it. It is the business life of the place. Its success depends upon its ability to furnish that class of hotel service which attracts people with money to spend. They will have such service or go elsewhere. The welfare of the community is quite as much at stake as that of the owner of the hotel. Whatever conduces to its success inures to the public welfare."

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The commission, therefore, held that there was no unjust discrimination against the domestic consumer.¹

Now it may be admitted for the sake of the argument that the commission in this case did not arrive at the correct solution of that particular problem, considered either from the standpoint of economics or of politics. This case is cited merely to show that there is room for a difference of opinion as to whether the preference of the domestic consumer to the industrial consumer is in all cases for the ultimate good of the domestic consumer.

THERE have been many instances in which our political leaders, for the purpose of building up industries in their towns, have sought to prefer the industrial consumer to the domestic consumer.

The city of Hammond, Indiana, the owner of a municipal waterworks as late as 1918, did not give the domestic consumer the first place in its program of public welfare. On the contrary the city officials at the time the plant was installed, for the purpose of encouraging the location of industries, in some instances, provided free water for them. This, of course, necessitated extra cost of operation and at the same time placed the burden of maintaining the plant and rendering service on the city and paying customers. The commission, however, held that the city could not do that because it amounted to an illegal discrimination.²

This, mind you, was not done by a

public utility privately owned, but by a public utility publicly owned. The purpose of the political leaders here was to encourage industry at the expense of the domestic consumer.

All authorities agree that business, no matter how desirable for a community, cannot be preferred to this extent at the expense of the domestic consumer. But the fact to be emphasized here is that the political leaders of this place did not consider business enterprises of secondary importance to the welfare of domestic consumers of water service.

TAKE another case. The St. Louis Water Department for a number of years sought to encourage the location of industries within the city by preferential rates. Finally there was a complaint lodged with the Missouri commission against this practice. The commission said:

"According to the undisputed testimony on the part of the city, the avowed purpose of the schedule is to encourage the establishment of manufacturing plants in St. Louis. It is said that high water rates would prevent this. It is argued that custom has established the law to a certain extent in the case before us, and, moreover, it would be folly to undertake to draw up a theoretical set of water rates for St. Louis, and at the same time, put it into force; that the question is not one of principle at all, but is whether St. Louis as a matter of policy has the right to give a special rate to manufacturers or to any other class of people in order to induce them to locate in and aid in developing St. Louis."

Remember this was a municipal utility politically managed and that it was the managers of this enterprise who were making this argument.

It was strongly urged as a sufficient reason for approving the lower rates for the use of water for purely manufacturing purposes that it was the earnest desire of the municipal au-

¹ *Dean v. Belgrade Power Co. (Me.) P.U.R.1919B, 977.*

² *Re Hammond Waterworks (Ind.) P.U.R. 1919A, 180.*

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thorities and the business, manufacturing, and industrial interests of the city. As to this the commission said:

"The record is replete with evidence to establish such desire. It shows that after full discussion and careful consideration covering a considerable period of time in which leading business and civic organizations, and prominent citizens participated, the twenty-eight members of the board of aldermen passed the ordinance containing the schedule of rates without a dissenting vote, which was approved by the mayor. Moreover, the frank testimony of the water commissioner clearly proved such desire."

The commission did not allow this to be done, however, notwithstanding it was favored by the political leaders, civic organizations, and prominent citizens.³

In this case, the legislature had forbidden that sort of discrimination and, therefore, it was declared illegal notwithstanding the fact that the officials of the city deemed it wise from an economic standpoint.

CITIES which already have industries often forget their value, overlooking the fact that they give employment to labor and serve as a barrier against unemployment; but when the cities are young and have the urge to grow, industries are not then regarded with disdain. Speaking of low natural gas rates to encourage industry, the Oklahoma commission once pointed this out. The following statement shows what the people thought of the value of industries:

"In the scramble for the location of industries at the various cities and towns of the state, special inducements were offered in the way of a cheap fuel supply. Towns competed in offering the lowest possible rates for natural gas in order to secure the

location of factories and other industries."⁴

In this case it was held that the policy of encouraging industry should not go so far as to permit the selling of gas for that purpose at less than cost. The argument in favor of the low rates to industry was that the industries build up the city by bringing in large numbers of people connected with the industries and in their employ, and that to increase the price of gas might result in driving away these industries and their employees and thereby injure the city.

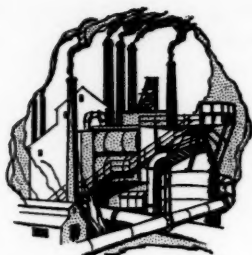
THESE illustrations are sufficient to show that there is some foundation for the belief, or at least that there are many persons who believe, that the prosperity of the state and the good of the domestic consumer lie to some extent in the industrial life that grows up around their towns, and that the contribution of the electric industry to the building up of factories and payrolls is a very important contribution to the welfare of the community.

This is a question which labor might well ponder over. The new political technique adopted by the New York state legislature emphasizes the importance of labor in its capacity as consumer and puts in second place the importance of labor in its capacity as a producer, or in other words, it minimizes the importance of labor's opportunity to earn a livelihood.

Is this not penny wise and pound foolish?

³ *Civic League v. St. Louis Water Dept.* (Mo.) P.U.R.1917B, 576.

⁴ *Re Osage & O. Co. (Okla.)* P.U.R.1917D, 426.



What the Worker Thinks of Private Ownership—and Why

A point of view that is summarized in the phrase:
“Lemme tellya *my* experience!”

THE author of this article is one of the most experienced consultants on labor management in the country. After graduating from an American university and pursuing his graduate studies abroad, he went to work as a “hunkie,” in the steel mills, and later as a common laborer in the mines, on the railroads, and in other industries, where his contacts with the man who toils were intimate and illuminating. From this invaluable experience Mr. Williams has obtained—and is still obtaining—information about the viewpoints of the working man which he is using not only in books, lectures, and magazine articles, but also in his consultant work with large industrial and utility corporations.

By WHITING WILLIAMS

IT was one of those interurban trains in New England where, instead of paying one fare and getting it over with you had to drop your book or paper every few miles and dig down, again and again, for the necessary 7 or 8 cents. Finally, I protested mildly to the conductor.

“Don’t blame *me*!” he answered with a roar which grabbed every ear in the car. “It’s not *my* fault. Of course, it gets everybody sore—every day. But I couldn’t no more get the company to change it than *you* could!”

He had hardly finished before I recollected how, a few weeks before, I had entered my office to find an employee of a certain Cleveland util-

ity adjusting a fixture. The morning paper had contained the lengthy statement by the same company’s lawyer who set forth all the reasons why the Ohio Public Service Commission should grant it higher rates. In less than ten minutes my busy workman had given me a vastly better understanding of the issue than I had gained from the paper. Besides knowing perfectly the details of his own job, his employers had evidently taken pains to show him just how this job of his tied into all the other separate jobs of the whole company’s aggregate and organized responsibility for serving me and all its other customers—also exactly how the proper per-

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formance of his own and all these others' jobs merited increased income for the entire outfit.

"For 'n instance," he told me as he plied his tools, "you wouldn't believe how many thousands of changes we have to make like this I'm makin' here—changes that cost you nothin' but that the company's gotta pay *me* for—me and a whole lot o' clerks and printers and other guys that has to help put it right and keep it right. Without more money comin' in it just can't be done—leastways, not with enough profit to keep the company goin' and gettin' the increased capital it's gotta have to keep *on* goin.' See?"

THE interurban conductor, unlike this craftsman, had told me nothing about the rule that troubled me. Nevertheless he had told me just as much as had the craftsman about what his employer thought of *him*—and hence of me, the company's customer and, for the moment at least, his client.

But while the craftsman's presentation "got" me immensely more than did the legalistic and high-financial arguings of the morning column, the conductor's ill-tempered exclamations would have sounded in my ears long after my eyes had reported thousands of dollars' worth of his company's printed statements.

The reason, of course, is simple. Both were making—the one for, the other against his employer—the particular appeal which is always most powerful to grip us humans, the appeal, not of logic or reason but of experience. In making their appeal, one for better, the other for worse, they were only demonstrating the truth of a certain phrase which no executive

should ever forget. All my close-up contacts with the manual worker here and abroad convince me that this phrase tells more than any other about the workings of the mass citizen's mind. It is this:

"Lemme tellya *my* experience!"

WHEREVER newspapers, books, or letters are read, bulletin boards scanned, or voices heard; wherever, in fact, any two peoples' minds attempt to meet, the final appeal is always made to those reasons of the heart which represent, not so much the cogitations of our brains as the emotional distillations of our personal, individual, day-by-day, experience.

"I see where the boss (here insert anybody—Herbert Hoover, Henry Ford, John Doe, or Mary Doe) says so-and-so," Jim is sure to say. "Well, mebbe he's right. But—lemme tellya *my* experience!"

If Jim's experience, supported perhaps by nearby Jack's or Bill's, is unfriendly to the quoted *dictum*, the result is just too bad—for the *dictum*. Because Jim's daily work represents by far the most vital and compelling sector of his average daily doings, so he, along with all the rest of us, takes the daily experience of his daily job at least twice as seriously as that of his other doings.

THIS rooting of our daily attitudes in our daily doings and especially in our daily work is worth mentioning in the columns of PUBLIC UTILITIES FORTNIGHTLY simply because of this:

The farther a utility executive gets up the line into the heights of administrative responsibility, the likelier he is to search for the roots of his cus-

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tomers' attitudes in their thinkings instead of in their feelings—those feelings which, from hour to hour and from day to day, are unceasingly a-borning out of our daily experience with his representatives in the person of this or that individual member of his organization.

This common managerial error usually proceeds at once to complicate the whole problem of public relations. It does this by persuading the executive to make the further mistake of taking entirely too seriously this or that proposal of government ownership or other economic panacea and program. With this the hubbub and the argument are on—and the discovery of the real, underlying cause of the commotion is made immensely more difficult than before. Nothing so pleases the public ownership preacher as exactly such a reception of the alleged child of his brain; the more actively people whom he dislikes try to prove his economic ideas faulty, the more delight he takes in defending them. As a matter of fact, he cannot lose; if he wins he becomes a public victor, and if he loses he has the satisfaction of proving himself a public martyr.

BUT meanwhile the real chemistry of the situation is to be found, not half so much in the branches of his beautiful economic program as

down in the soil in which some unfriendly attitude takes root and blossoms out of some unbeautiful personal experience—some experience arising perhaps from nothing more fundamental than a grouchy, temperamental gang-boss, an unclear service bill, or perhaps an over-hasty motorman.

To overlook the attitude and the experience behind it and to try to out-argue the program is worse than to have nervous prostration over the spigot while neglecting the bunghole. The real purpose of the program is to "doll up" those underlying complaints and sorenesses and make them look more dignified and imposing than merely swearing and pounding on the table. So the only action that gets results is for someone to hurry up and remove the cause of the flood of oratory by turning off the faucets of bad feelings—bad feelings which have started fermenting in some dark area of the company's failure properly to serve its customer or its co-worker, or, most likely, both.

This may not be easy. Oftentimes, that sub-soil of unfortunate experience is a matter not only of the past, but of a long-distant past—and, perhaps, even of the long-distant past of an entirely different company!

"A NUMBER of years ago," so they told me lately in Portland, "the local public gained the dis-



T"HE farther a utility executive gets up the line into the heights of administrative responsibility, the likelier he is to search for the roots of his customer's attitudes in their thinking instead of in their feelings. . . . This common managerial error usually proceeds at once to complicate the whole problem of public relations."

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tinct impression that one of its big utilities had definitely broken certain important promises. Not a single utility in the city but has found its job more difficult ever since."

Logical? Fair? No, not at all—merely human. Because the unfriendly attitudes born of unpleasant experience seldom bother with the bounds of any kind of fences, reasonable or unreasonable.

Nevertheless, such unfairness does not greatly weaken the truth and practical usefulness of this observation:

The "Power Issue," like the tariff, is mostly a local issue; on the whole and in the long run, the vociferousness of any locality's protest-making and government ownership preaching makes a fair index of the unsatisfactoriness of local experience and, therefore, of local management.

TO correct any bad situation, accordingly, is a matter of contacting, not with a lot of imposing syllogisms but instead with a complex of highly emotional roots located deep in the depths of the locality's daily experience.

That's far from easy!

Assuredly, for instance, these roots can hardly be reached by any amount of salve or glad-handing; unless this serves definitely to prevent the bad experience before it starts, it is sure to be quite as useless as is any policy of relations with the public which is not tied into the policy of relations with personnel. On the contrary, the necessary prevention may require very deep-going, costly managerial action. For instance, the hoped-for satisfactory experience of co-worker and customer may require nothing less than new

machinery or possibly, even, an entire new plant.

PERHAPS you saw, a few years ago, that skit on a Paris stage. A man suddenly perceives a young lady drowning in the Seine. Instantly he dives in—and a moment later reappears with her, wet, limp, half dead. Quickly he starts to bring her back to life. With delight he watches her return to consciousness, and with utmost concern starts asking her about herself—until she informs him that she is a telephone operator! With that his joy turns to dismay, and in disgust he picks her up, throws her back into the river, and, after tossing after her her pair of shoes, washes his hands of so unpleasant an incident.

Believe it or not, exactly this same skit used to arouse vast enthusiasm from similar audiences in America, thirty years ago. It did so that time for the same reason as it did later in Paris; it was impossible to secure telephone mechanisms with which even the most loyal of employees could give the proper service. Today Paris' new equipment will give subscribers no further justification for so maltreating the unfortunate "telephoniste," just as there will be no justification for another such strike as occurred some years ago when she and all her colleagues struck in protest against their miserable daily experience of trying to satisfy their clients with their worn-out, unresponsive mechanisms.

CONSIDERING the great sums which here amongst us have gone into modern plants, the "Lemme tellya *my* experience" of unhappy American em-

The "Power Issue" Is a Local Issue, and Reflects Good or Evil Upon the Local Management



"THE 'Power Issue,' like the tariff, is mostly a local issue; on the whole and in the long run, the vociferousness of any locality's protest-making and government ownership preaching makes a fair index of the unsatisfactoriness of local experience and, therefore, of local management."

ployees or customers is much less likely to come from some defect of management's physical than from its mental, plant—its way of thinking about its job.

Thus, recently, the pilots of a certain well-known air service threatened to quit when told that their company had been purchased by, and was to be amalgamated with a certain other competing air-transport. The reason was neither physical nor financial. It was a certain deep-going difference in the way the two organizations thought and felt about this matter of the daily experience of their employees, on their daily jobs. Of the one, all the executives had grown up from driving planes. So it followed the policy of carefully choosing and training every pilot and then giving him full responsibility for his ship and passengers—to make his own decision in every instant's complex and bewildering equation of storm, fog, gas tank, mountain peak, altitude, and direction. Of the other organization, the chief executives had been trained in railroad operation; their tendency was to take responsibility away from the pilot and give it to a superintendent

some hundreds of miles or so away.

The difficulty was finally solved by assuring the belligerent pilots that their unit would continue under the immediate direction of their former officials free to retain their usual policy.

"RULE-ITIS" might be the name of another mental defect in the managerial machine which in these days of big organizations tends increasingly to upset employees and so to breed bad experience at that vital contact-point between customers and employees.

"But when you saw that customer felt so strongly about it," so the superintendent is likely to ask his man as he fingers a memo from the vice president who details some vociferous complaint, "why in Sam Hill didn't you let her have her way?"

"Simply because," replies the employee, "I've so often been razed for doing just that—that is, in all those cases where the customer didn't happen later to phone in a kick. Now that this particular customer has made a fuss, I'm blamed for *not* breaking the same rule I've so often been

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scolded for breaking when I thought it needed breaking."

Even worse customer experience and attitude is bound to follow such a knot in the rules of over-centralized management as was cited lately in a big western city.

"Whenever we'd ask the district office for some slight variation from the ordinary equipment," a customer recited, "we'd finally be switched to the local manager—only to be told by him that he couldn't grant any such variation without getting the O. K. of the head office a thousand miles away. I don't know whether it hurt his self-respect or not, but it sure made everybody in this sub-sub-district mighty sore."

"**C**HARTITIS" might be the name of that other evil which breeds a wide variety of unhappy customer and co-worker experiences, including the sad but well-known phenomenon of the "orphan phone-call"—the customer inquiry which is transferred from one office to the other until it gives up finding any destination and dies of company inattention and customer irritation.

If local protest-programs are not permanently to vary with the mere size of the nation-wide organization serving it, such "Rule-itis" will have to be eliminated. And this can never be done merely by adding new rules to the old ones; the geography to be covered is now too big and the different kinds of situation too complex. The only way out is evidently going to lie through such careful picking and such intelligent training of employees and officers that more and more reliance can constantly be placed upon

their loyalty, their inter-departmental and company-wide understanding, and their all-round good sense and judgment in every situation affecting their company's function and interest.

Exactly the same way out must somehow be found and practised in the very highest levels of the organization chart, now that so many mergers and super-mergers, while appearing to put responsibility for satisfactory daily employee-customer contacts on the shoulders of the local president or manager, actually leave it on the laps of busy and only half-interested directors a full thousand or two miles away!

"My Big Bosses down in New York," so one local manager put it, "probably had to send me that last order for a cut-down and lay-off. But it's a cinch they didn't see it as I did—the way it hit Bill and Jim and Fritz and all the others, to say nothing of the mayor and a lot of our customers."

UNDoubtedly increasing responsibility is constantly being given to the local management. But, unfortunately, this does not work out so satisfactorily as it looks. The reason is that the increasing size of our business units is rapidly increasing the danger of "executive insulation." The importance, grandeur, and prestige of the new merger's executive office becomes so imposing and awesome that even his closest administrative associates find it harder and harder to tell the chief what they really believe instead of what they think he *wants* them to believe. The result, of course, plays dangerously into the hands of that curse of modern big business known as the "yes-yes" man.

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"They all make decisions difficult for me," so an executive put it recently, "because they seem to think that I want them always to agree with me."

It is hardly too much to say that this threat of insulation and the yes-yesser against the proper functioning of the management's thinking, tends to increase with the square of the company's size!

Huge enough is the damage caused the whole tree of organization by thus stopping the wholesome sap of individual reliance on merit instead of "pull." Even greater is the damage done to the organization's entire function. For that insulation is fairly sure to deaden if not indeed, finally, to sever, the vital nerve between the company's planning and policy-making in the chief's mind and those peripheral body contacts in which dividends are being either won or lost by that daily "Lemme tellya *my* experience" of personnel or public.

IT's not a simple problem; few can follow the example of two well-known Cleveland executives who found it necessary regularly to take opposite sides of every question in order to get frank discussion from their associates. The chief cannot personally break his own organization chart by hob-nobbing with all his employees—and if he did, he'd pretty surely get the same yes-yessing. Even

his customers are likely to slur over certain important details. The undercover man is, of course, anything but reliable—even when restricted in the manner described by a certain steel executive who assured me that "Of course, we know we can't trust them, so we have other spies reporting on them!"

Nor is the result always satisfactory when the president in desperation falls back himself on "*my* experience." Now that (particularly in the utilities field), the most important word is change, the chief's own personal, front-trench contacts of twenty years ago may themselves furnish that same deadly insulation from those life-giving or death-dealing front-trench experiences of present customers and present public.

"Nobody can tell me," a certain executive used to proclaim, "that our employees desire the 8-hour day. I *know* because, you see, I used to be one of them—thirty years ago."

What he was overlooking, of course, was "social relativity"—the way the desires of all of us shift moment by moment with the demands of keeping up with those restless Joneses.

So, too, with the railway head who grew up when railroads furnished only transportation and who, accordingly, has difficulty in realizing why

Q "If it is true that the local temperature of the 'Power Issue' reflects the efficiency of local utility management—with this decided, for better or for worse, in the hearts rather than merely in the heads of the local public—then it would seem strange that so much responsibility for contact with this public should be given the lawyer."

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so many of his customers today think of his trains as hotels on wheels.

"Here I spend hundreds of thousands of dollars," he protests, "on beautiful cars, heavy, reliable rails and road beds, and yet you tell me that your friends like our dining service not for these fundamentals which they evidently take for granted, but mainly because I put a dollar rug across the vestibule and see to it that the steward wishes them a fairly pleasant good morning!"

Incidentally, these various mental obstacles to proper company-customer contact make surprisingly useful the services of the "executive third party." Unprejudiced because inexperienced in this precise area, called in temporarily and given no authority or position on the chart, such a person is often able to bring to a satisfactory decision controversies which have remained for years either too delicate to favor frank discussion or too evenly balanced to permit solution.

More pertinent, however, is the fact that the whole problem of serving the public satisfactorily has recently been given a certain new and highly delicate complication since the country's prosperous nineteen-twenties put so many tens of thousands of foreign-speaking citizens for the first time upon the utility customer-list, thus making the gap between the average mentality of management and patron today immensely greater than before.

Do you remember the "immigrant-town" of your boyhood—the settlement, over across the railroad, of foreigners who did the hardest and

lowest of the district's jobs, rough people who could not talk English and did not dream of putting in the new electric lights or the telephone? Uncouth people you never thought of as citizens?

Well, they've moved from that time's fringe into today's fabric of American citizenship, American life, American buying and enjoyment. But because of the difference of their tradition and upbringing, the local executive's statement to them has to be framed with vast care, simplicity, and imagination, if it is to avoid, from them, some completely unexpected—some almost unimaginable—mental or emotional reaction and response.

And this gives courage for making one further point—a highly delicate one!

If it is true that the local temperature of the "Power Issue" reflects the efficiency of local utility management—with this decided, for better or for worse, in the hearts rather than merely in the heads of the local public—then it would seem strange that so much responsibility for contact with this public should be given the lawyer.

DOUBTLESS the reason for this, as for so many other things, is nothing but experience—early company experience in the course of which advice about public relations was first asked of the lawyer in charge of indemnity cases. But this ought hardly to stand against the defects certain to ensue when this whole area of men's feelings is assigned to the person trained to take seriously only their *thinkings*—trained above all others, also, to delight in meeting

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other humans in the field of argument rather than where they really live and move and have their being in their daily working and experiencing. In spite of all the hours that he would like to have the citizenry spend reading complicated fiscal statements or listening to lengthy arguments about private versus public ownership, that same citizenry, pressed overhard these days to make its living, is, pretty surely, confining its reading mainly to the figures of the monthly bill and its listening to the friendly—or unfriendly—voices of the meter-reader in the home or the receipt-giver in the office.

If for some organization reason, the lawyer's responsibility in this sector can not be shifted, then at least his chief might well hang upon his counsellor's walls the following from Ben Franklin:

"In my first voyage from Boston, being becalmed off Block Island, our people set about catching cod, and hauled up a great many. Hitherto, I had stuck to my resolution of not eating animal food. I consider'd the taking of every fish as a kind of unprovoked murder, since none of them had or ever could do us any injury. All this seemed very reasonable. But I had formerly been a great lover of fish, and when this came hot out of the frying pan it smelt admirably well. I balanced some time between principle and inclination, till I recollected that, when the fish were opened, I saw smaller fish taken out of their stomachs; then thought I, 'If you eat one another, I don't see why we mayn't eat you.' So I dined upon cod very heartily. *So convenient a thing it is to be a reasonable creature, since it enables one to find or make a reason for everything one has a mind to do.*"

And after that, the chief might well put on his own desk the shorter phrasing of the same preachment for dealing with both his employees and his customers as individuals who think less often than they feel:

"Lemme tellya my experience!"

According to the Daily Press—

THE 46,000 busses engaged in the common carrier business in the U. S. pay an annual tax bill of over \$30,000,000.

THE electric refrigerator has advanced to first place in the list of domestic appliances operated by electricity.

OVER 35,000,000 telephones are in service throughout the world; more than 21,000,000 of them are in the United States.

THE Actuarial Society of America reports that flying is still more than 200 times as hazardous as travel by railway.

ACCORDING to the Interstate Commerce Commission, busses exert little more wear on highways than do private motor cars.

"FREE RIDES"—at the stockholders' expense—were given last year by the Delaware, Lackawanna and Western Railroad to 1,327,355 pass-holders.

DURING the past nine years, while the population of this country increased 11 per cent, the number of electrified homes increased 75 per cent.

THE rapid extension of natural gas pipe lines (the largest in the world is now being completed between Texas and Chicago), is raising some new problems in utility regulation.

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

HENRY C. CAULFIELD
Governor of Missouri.

"The public utilities thrive on remote control."

GEORGE V. HARVEY
*Borough president of Queens,
New York.*

"City government in this country is a racket."

(*Sign in a New York City
restaurant.*)

"WANTED: College men who see double. To read
gas meters."

EDWARD F. FLYNN
*Assistant counsel, Great Northern
Railway Company.*

"It is easier for the government to get into business
than it is for it to get out."

PAUL CLAPP
*Managing director, National Elec-
tric Light Association.*

"There is no record of any public utility in the coun-
try owning any stock in any newspaper."

MIL0 R. MALTBI0
*Chairman, New York Public
Service Commission.*

"The fundamental objection to the service charge is
not so much economic or accounting as it is psycholog-
ical."

DANIEL STARCH
Consultant in commercial research.

"A very substantial portion of power customers does
not know who owns the local company and is not inter-
ested to ascertain who does own it."

BENJAMIN BAKER
Editor "The Annalist."

"There are areas in the country where public utility
money is being corruptly used to control both public
officials and private citizens of influence."

JAMES DELONG
Financial writer.

"The vital economic function which the street rail-
way performs in the life of every community has al-
ways made it a football for local politicians."

*News item from
Keokuk, Iowa.*

"Firemen were called to North Tenth street between
Main and Blondeau streets this morning, where a car
had caught fire from a crossed wife in the back seat."

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WILLIAM H. HODGE
Vice-president, Byllesby Engineering and Management Corporation.

EDWIN GRUHL
Vice president, North American Company.

H. I. PHILLIPS
Newspaper columnist.

GEORGE B. CORTELYOU
President, Consolidated Gas Company of New York

GEORGE ROTHWELL BROWN
Newspaper columnist.

MATHEW S. SLOAN
President, the New York Edison System.

JOSEPH EASTMAN
Member, Interstate Commerce Commission.

JOHN SPARGO
Author and former Socialist.

JOHN F. GILCHRIST
Vice president, Commonwealth Edison Company.

"The term 'power trust' is the advertising slogan of politicians trying to sell a new political stepping-stone to the electorate."

"In 1913 every factory worker was equipped with 3 horsepower per worker; by 1925 this had been increased to 4.3 horsepower per worker, and it now exceeds 5 horsepower per worker."

"The Federal Trade Commission inquiry reveals that a public utility holding company dealt in musical compositions. Possibly somebody bought some of the stock for a song."

"Within recent years the need for public understanding of the utility business has grown to a point where it is at least equal in importance to the technical and economic problems which continue to confront us."

"Guaranteeing a railroad's earnings in time of depression by a law passed in time of plenty is a good deal like fixing the statutory blood content of a turnip—it works splendidly until you try to get the blood out."

"We shall have, undoubtedly, revision and strengthening of state laws regulating utilities. That is proper and desirable, and neither utilities nor investors have any reason for concern over it."

"Government in business is not an idea which I view with alarm, if the business is of such a nature that it cannot be carried on by private enterprise without the protection to all concerned which is afforded by an elaborate system of public regulation."

"The establishment of government ownership in this industry (the utilities) will not end the assault upon private ownership and private enterprise. The goal is the elimination of private enterprise in industry after industry until there is no longer any private industrial enterprise."

"While sensational charges (against the utilities), which in many cases are as close to the boundary line of libel as the attackers dare to go, easily get publicity and often make the front pages of newspapers, direct published denials are likely to be cut to a paragraph or two and land on the page with the death notices."



Current Trends in the Regulation of Power Companies

PART I

What the courts and commissions are ruling about what the electric utilities can and cannot do; a review of the outstanding decisions of the past twelvemonth.

By ELLSWORTH NICHOLS

WHEN a political assault is made upon an electric utility company, has the company a right to resist? If so, how far may it use its resources in opposition? Who owns the energy in falling water? What should be done about public utility merchandising? Should bond discount be capitalized? Has a person a constitutional right to demand public utility service?

These are only a few of the many interesting and important questions which have cropped up in the field of regulation during the past year. They have been considered by the commissions and progress has been made, but the final answers have not yet been found.

POLITICAL activities by electric companies have been aired in Federal and state investigations and in political campaigns, but it was for the California commission to act on the subject officially.

Electric companies in June, 1930, were interested in a municipal election in the city of Los Angeles, where the question of municipal operation was involved. The business of the utilities was at stake and the companies sought to protect that business by the use of money and employees in a publicity campaign. This was brought to the attention of the commission, which began an investigation.

The commission dismissed the proceedings when it was shown that

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political expenditures were charged to surplus rather than to operating expense accounts and that the activities of the utility employees at the city election had not impaired the adequacy of utility service. Two commissioners, however, dissented from the conclusions reached by the majority.

Commissioner Decoto, concurring in the majority opinion, made several interesting observations concerning the right of a public utility company to protect itself from political attacks. He said further that "it is just as much the duty of corporations and public utilities to see that proper men are elected to public office as it is the duty of the individual citizen," and it is also their duty to "see that the public is thoroughly informed on any issue pending before it, and if the corporation or utility has some special knowledge on the matters pending before the electorate, it certainly is the privilege, if not the duty, of the board of directors of the corporation or utility to impart such knowledge to the individual voter."

Moreover, he said, if, in the judgment of the board of directors, it is to the best interest of stockholders to expend some of their funds to convey to the electorate information to enable it to vote intelligently and to use a small part of the time of utility employees for that purpose, it is entirely a matter between the board of directors and the stockholders, and is not the business of the commission.

COMMISSIONERS Seavey and Carr, dissenting, expressed the belief that the employment of a large number of utility employees in political

activities must necessarily have resulted in some impairment of service. The legal right of utilities to engage in extensive and costly political activities, it was said, was subject to at least two qualifications, to wit:

(1) The full cost of such activities must be charged against and borne by corporate surplus to the end that none is reflected in the current cost of operation.

(2) Any utilization of the regular operating force must be such as not to impair or detract from the standards and character of service to which the public is justly entitled.

The dissenting commissioners recommended a close supervision of the operations and conduct of the utilities during the course of future political campaigns, fortified by reports to the commission as to the number of employees withdrawn from their occupations during working hours.

Public utility companies have, as a rule, been allowed not only to expend funds to defend themselves against legal attacks, but they have been allowed to charge these expenditures against the ratepayers as a normal expense of doing business. The decision in California indicates that funds may likewise be expended to defend the business against political attacks, but only upon condition that the expenditures be charged against the stockholders.

TO what extent an electric utility may go in refusing service to a competitor, whether it be a municipal plant or only a landlord who wants to submeter electricity to his tenants, has become an important question. On this point also there has been a de-

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cision by the California commission.¹

It was held by the commission that the mere filing of a schedule with commission approval, which schedule is applicable to "electric service to other electric utilities and to municipalities for distribution and resale," particularly when coupled with a refusal to serve competitors, does not constitute a dedication of facilities to the use of competing municipal plants.

In a dissenting opinion, Commissioners Seavey and Carr concluded that the utility had been organized for the primary purpose of distributing power and light, not only to customers generally, but also to municipalities; it had secured franchises and dedicated its property with the full knowledge that the municipalities had a right to condemn and build a parallel and competing system; and consequently the utility must furnish current to the municipalities when called upon to do so.

The outstanding controversy involving a refusal to furnish electricity to landlords for submetering arose in New Jersey, where it was held by the state courts that this service should not be required of an electric utility.²

The commission decision was upheld in the state courts and an appeal was taken to the United States Su-

preme Court. The outcome of this appeal, which is pending at the time of writing, will probably shed more light upon the subject.

NOTWITHSTANDING the avowed policy of the state of Vermont to discourage the acquisition of local utility properties by foreign corporations, a foreign company was authorized by the commission to acquire electric properties of three small local utilities, where it appeared that the transaction was but a step in an ultimate consolidation under the control of a single local utility company. The commission permitted the purchase upon the express condition that the foreign company should transfer the property to a domestic corporation within a specified period of slightly over two years, and upon the further condition that the charges for current supplied within the state should not be in excess of those made for the same service in the foreign state.³

A proposed merger of various companies, including water, gas, steam heat, ice, bus, and electric railway utilities, was disapproved in Indiana where the earnings of the merged properties would not, in the opinion of the commission, adequately provide for operating expenses, depreciation, taxes, interest, amortization, and dividend requirements which would result

¹ *Fairfield v. Great Western Power Co.* (Cal.) P.U.R.1930E, 8.

² *Sixty-Seven South Munn v. Public Service Electric & Gas Co.* (N. J. 1928) P.U.R. 1929A, 329.

³ *Re Vermont Hydro-Electric Corp.* (N. H. 1929) P.U.R.1930C, 217.



Q "PUBLIC utility companies have, as a rule, been allowed not only to expend funds to defend themselves against legal attacks, but they have been allowed to charge these expenditures against the ratepayers as a normal expense of doing business."

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from the proposed structure of stocks and bonds. The merger of unprofitable railway properties with more profitable forms of utility services was held not to be in the interest of the public, in spite of the alleged fact that it would save the transit facilities for continued useful operation, where the patrons of the other utilities would gain no advantage, but would be burdened with deficits from the railway operation.⁴

The Massachusetts commission denied, as being contrary to public interest, a petition for merging a gas utility with an electric utility, although the board admitted that economics were possible through consolidation, where the state law prevented a municipality in which both operated, in the event that it should ever desire to do so, from taking over both services if they should be owned by a single company.⁵

THE many consolidations of public utility companies and the intricate relationships between holding and management companies and operating utilities present problems in regulation which have called forth the best efforts of the commissions. Under our system of regulation, since rates are based upon the cost of rendering service, it becomes important to determine the actual cost. The difficulty of finding this cost has been augmented by the fact that payments are made to holding companies, some of which may be outside of the state. Utilities have, in many cases, insisted that a commission should accept the

actual amount paid in measuring the reasonableness of expenses, while the commissions have attempted to go further and determine the actual cost of the services or materials and supplies furnished to the operating utilities.

One of the outstanding cases involving this question is that of the New Hampshire Gas & Electric Company. The New Hampshire commission ordered public utilities and a non-resident association which held their stock to furnish "complete copies of all contracts, agreements, and correspondence in any way relating to the finances" of the operating utilities. This order was declared by a Federal court to be unusual and unreasonable. The court held that it had power to prevent a state commission from enforcing an erroneous interpretation of an act of the state legislature when such interpretation attempted to attribute to the commissioners unconstitutional powers affecting the rights of citizens beyond the borders of the state.⁶

The court brought out the point that utilities operating within a state may properly be ordered by the state commission to produce such information as they possess concerning their intercorporate relations, but they cannot be required to go beyond the jurisdiction of the commission to acquire evidence which is not in their possession or control.

THE question of management fees was presented in a Maine decision, where it was held that a holding company which performs any

⁴Re Central Indiana Power Co. (Ind.) P.U.R.1930D, 65.

⁵Re Cambridge Gas Light Co. (Mass.) P.U.R.1930D, 263.

⁶New Hampshire Gas & E. Co. v. Morse, 42 F. (2d) 490, P.U.R.1930D, 427.



Commissions Cannot Interfere in the Political Activities of a Utility

"IF, in the judgment of the board of directors, it is to the best interest of stockholders to expend some of their funds to convey to the electorate information to enable it to vote intelligently and to use a small part of the time of utility employees for that purpose, it is entirely a matter between the board of directors and the stockholders, and is not the business of the commission."

services, or makes any disbursements, for an operating company is entitled to receive reasonable compensation, but the charge should be made for services actually performed or disbursements actually made, and not upon the basis of a percentage of gross receipts. A management fee of 3 per cent of the gross earnings of an electric utility was eliminated because no relationship was shown between gross earnings and the value of the services performed.⁷

THE managerial discretion of a power company was questioned in a proceeding before the Alabama commission when the River Falls Power Company proposed to generate its own current in a particular community. The commission believed

that the purchase of power from another company would result in more economical operations.

Still, the commission was doubtful of its authority to compel one utility to buy any part of its power supply from another, and, to settle the question, granted a certificate which permitted operation under the plan of local generation of current, with the *proviso* that rates should be based upon the economies that would accrue under a plan for purchasing power. The commission stated that it had power to fix rates for service so as to give due consideration to proper and efficient management.⁸

ATTENTION was centered during the past year upon the ruling of the Maine commission that bond discount should not be capitalized. An

⁷ Public Utilities Commission v. Gould Electric Co. (Me.) P.U.R.1930D, 289. See also *Re Los Angeles Gas & E. Corp.* (Cal. 1930) P.U.R.1931A, 132.

⁸ *Re River Falls Power Co. (Ala.)* P.U.R. 1930E, 97. See also *Re River Falls Power Co. (Ala.)* P.U.R.1930E, 455.

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appeal was taken to the Maine Supreme Judicial Court from this holding and that court upheld the commission, which carefully and exhaustively outlined the theory of its decision.⁹

The precise point involved was the issuance of stock for the payment of temporary notes which had been given to cover bond discount. Both the commission and the court took the position that bond discount is merely deferred interest which is payable out of earnings and is not capital. Therefore, neither the bond discount nor the notes given to cover such discount could be properly capitalized. Such capitalization, it was said, would be in effect the capitalization of future earnings.

WATER power development has been a concern of the Federal government and of the state governments alike. There has been some controversy as to the proper governmental agency to regulate. The Federal Power Commission in the New River Case held that a water power development in Virginia came within the scope of the Federal commission, although the commission refused to pass upon the question whether the stream was navigable. It based its decision upon the ground that interstate commerce would be affected by a hydroelectric project.¹⁰

Advocates of state rather than Federal regulation opposed this action, but without success. The Federal control advocates seem to proceed upon the theory that the Federal government should regulate water power

development wherever possible, and that regulation should be imposed notwithstanding the objections of the state governments.

The West Virginia commission has said that the policy of that state, as announced in the Water Power Act, is to encourage hydroelectric development on a broad and comprehensive scale to the greatest proper and practicable utilization of the power of any stream or watershed, and to forbid the licensing of piecemeal development that would interfere with the complete utilization of power resources.¹¹

The commission granted a petition for hydroelectric development notwithstanding an objection advanced by coal-mining interests that such development would prostrate the coal business within the state. It was the commission's opinion that the enterprise was justified by the necessity and the demand of public industry and commerce for progress of development in the electrical service generally.

The commission stated that to support such a license the applicant must not only show that the proposed development will be adequate and comprehensive, as required by state law, but must also show the ability of applicant to fulfil other legal requirements such as those regarding financial security, location of property within the state, as well as the economic value of the project to the people of the state as a whole.

THE Wisconsin commission made the interesting ruling that the energy which resides in falling water

⁹ *Re Central Maine Power Co.* (Me. Sup. Jud. Ct.) P.U.R.1931B, 143.

¹⁰ *Re Appalachian Electric Power Co.* (Fed. P. C.) P.U.R.1931B, 433.

¹¹ *Re West Virginia Power & Transmission Co.* (W. Va.) P.U.R.1930D, 225.

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which cannot be captured by means of a dam across the stream is not a property right appurtenant to the riparian land, but is appurtenant to the dam, which can only be constructed by permission from the state.¹²

The commission in this case held that no allowance should be made for the undeveloped water power exclusive of the value of the land in a valuation in connection with the grant of the permit for construction and operation of the dam. Lands owned by the company applying for the permit but not necessary for the development project; that is, lands other than flow-

age lands and those upon which the dam, power house, and other necessary structures were to be located, were not included in the valuation.

In Tennessee the value of a hydroelectric dam was not permitted to be amortized as an operating expense over a period of ninety-nine years, which was the life of the company's lease of the power site. The commission was of the opinion that such value should be included in the capital account, and that any amortization fund set up for the property by the company should come from the company's net return.¹³

¹² *Re* Flambeau Power Co. (Wis. 1930) P.U.R.1931B, 17.

¹³ *Re* Tennessee Electric Power Co. (Tenn.) P.U.R.1931E, 312.

The second and concluding installment will appear in the following issue of PUBLIC UTILITIES FORTNIGHTLY—out July 23d.



The Menace of Too Much Governmental Regulation

Excerpts from President Hoover's Memorial Day address at Valley Forge

"FOR the energies of private initiative, of independence, and a high degree of individual freedom of our American system we are offered an alluring substitute in the specious claim that everybody collectively owes each of us individually a living rather than an opportunity to earn a living, and the equally specious claim that hired representatives of a hundred million people can do better than the people themselves, in thinking and planning their daily life."

"AMID the scene of vastly growing complexity of our economic life we must preserve the independence of the individual from the deadening restraints of government."

"WE must not be misled by the claim that the source of all wisdom is in the government. We know that the source of wisdom is in the people; that the people can win anew the victory."



THE POWER COMPANIES' ANNUAL "GIFT" OF
\$16.20 to Each Domestic User

Here is an economic situation as puzzling as it is amazing. If the author's conclusions are correct—(find the error in his calculations if you can)—the electric utilities not only donate more to the public than does the American Red Cross, but present a unique problem to the commissions.

By FREDERICK A. WALDRON

IF "Believe-It-Or-Not" Ripley should say, in the course of one of his vaudeville performances, that the electric light and power industry of this country "gives away more money every year than the American Red Cross," the audience would smile in derision.

If some Senator or Representative should say on the floor of Congress that the electric light and power industry was the greatest philanthropical institution now functioning in the United States, his colleagues would jeer him to his seat.

Yet facts and figures show that electric utility companies of the United States donate—without hope of monetary compensation—between \$300,000,000 and \$400,000,000 worth of service every year.

To whom is this donation given? To big business? To other industries? To wholesale consumers?

To politicians, and subsidized college professors?

No; it is to none of these. The strangest feature of this philanthropical activity is that it is exercised towards the group that cries the loudest, or whose self-appointed representatives cry the loudest about being "exploited by extortionate electric rates"—the domestic consumers.

If the electric utilities in this country should say to the twenty-one million domestic consumers now connected with their lines, "Go back to gas, kerosene, and candles," the net income would be increased between \$300,000,000 and \$400,000,000 a year, and future investment in plants would be deferred for several years.

THE *National Electric Light Association Bulletin* for August, 1930, tells us that the average annual income per domestic consumer is an amount corresponding to 524 kilo-

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watt hours sold at an average price of 6.07 cents per hour, or \$31.80. So much for the average income from the domestic consumer.

Now let us examine what the average annual expense to the company for service to the domestic consumer totals.

We arrive at this sum by finding first of all the total operating charge of the company—the complete outlay for all classes of service. This is a very definite figure and admits of no juggling, because every company that wants to survive knows exactly how much money it spends during any particular year.

We find that this total operating charge is composed of two kinds of cost:

First: there is the generating cost—which includes all the cost incidental to the actual making of electric current, such as the maintenance and operation of dynamos, and other machinery one sees around a power house, as well as the wages of the men who operate them. This current is paid for by the customer in direct proportion to the amount of current used.

Second: there is administration and service cost, which includes the expense of bookkeeping, meter reading, billing, and so forth. This expense does not vary per customer in proportion to the amount of current used because it is obviously just as expensive to bill and to keep track of the account of a customer who uses 5 kilowatt hours as it is to take care of an account showing a use of 500 kilowatt hours. In fact, the user of 5 kilowatt hours oftentimes requires more attention and service.

Now we obtain this administration cost by subtracting the generating cost from the total operating cost. The balance is the administration cost which, if divided by the total number of consumers "on the lines" gives us the *per capita* administration cost for all classes of customers.

Using the *National Electric Light Association* statistics, we find that this charge per customer is \$33, or more than the average income per domestic customer. Add to this the prorated share of interests, taxes, depreciation, profit on plant investment allowed by law, and the per customer average on the first class of cost, (cost of current used) and we have a total per customer domestic cost of somewhere between \$48 and \$50 a year.

Let us say it is \$48 and subtract from it our original per customer income of \$31.80. We have left an average domestic customer deficit of \$16.20. Multiply this sum by the twenty-one million domestic customers in this country and we have an aggregate annual deficit of \$340,000,000. If we used the \$50 basis it leaves a total deficit of \$382,000,000.

It is, therefore, evident that with this loss the wholesale consumer makes up the deficit and enough more to pay dividends.

THE number of domestic customers constitute 90 per cent of the total, and use only 10 per cent of the current generated and contribute an income of about 26 per cent of gross, or about \$600,000,000 for which the utilities are paying out for current and service about \$750,000,000, plus

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Q "We have a total per customer domestic cost of somewhere between \$48 and \$50 a year. Let us say it is \$48 and subtract from it our original per customer income of \$31.80. We have left an average domestic customer deficit of \$16.20. Multiply this sum by the twenty-one million domestic customers in this country and we have an aggregate annual deficit of \$340,000,000."



charge for interest, taxes, profits, and other incidentals. The smallest user of electric current requires as much if not more service than the largest user of current.

How long can a situation like this go on?

Is it not all wrong?

Why should a policy of discrimination and confiscation continue when the facts are so plainly and simply shown?

Will government, state, or municipal ownership help the situation? Most emphatically "No!" unless the cost of service per customer can be reduced. The recent experiences in government railroad operation indicate that it would be materially increased. In addition to this there would be a new tax burden of \$300,000,000 per year, to offset the loss of taxes now paid by the utility companies.

It should also be borne in mind that the purchase of the utility companies would involve a bond issue of \$12,000,000,000, on which the interest and sinking funds would amount to about \$750,000,000, or a total of \$1,050,000,000, or approximately one half of the present gross income. With an operating ratio of 50 per cent plus depreciation charges, there is a deficit awaiting the public ownership plan.

IN the face of these facts it would seem that exploitation by ambitious advocates of government ownership is fallacious and impractical. The logical remedy is a reorganization of the rate system to domestic users, so that the burden could be placed where it belongs. If this is not done, the financial strength of the public utilities will be seriously impaired within the next decade.

The ratio of funded debt to fixed capital investment has increased in twenty-five years from about one third to one half, or 66½ per cent.

For every eighty new customers (approximately) it is necessary to add one employee to serve them, and with the average income per customer decreasing, and labor costs increasing, it is obvious that unless new policies are adopted, whereby the gross income can be increased per dollar or fixed capital invested, the future dividends will be somewhat impaired.

IN addition, the following program should be projected:

(1) Centralize the control of generating plants and main transmission lines with an organized interchange of power, thereby increasing load factor and reducing plant investment per kilowatt hour and per customer.

(2) Decentralize the service activities into moderate size groups and

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thereby increase the number of customers served per employee. These will reduce interest charges, taxes, depreciation, amount required for dividends on the one hand, and materially reduce service cost on the other, as it has been found that the smaller units are serving from two to three times the number of customers per employee than are the larger units.

The electric industry, in the meantime, continues to give away more money every year than the American Red Cross.

AUTHOR'S NOTE: It has been the author's privilege to investigate and report on industrial and utility activities for more than thirty years, and he is, therefore, familiar with their methods, organization, and operation. This article is written after a thorough research in the broader phases of the utility field, the results of which are quite the reverse of popular impressions.



The Part Played by the Utilities in "The American Plan"

*An excerpt from President Hoover's address in Indianapolis
on June 15, 1931*

"IF we analyze the ideas which have been put forward for handling our great national plan, they fall into two groups. The first is whether we shall go on with our American system, which holds that the major purpose of a state is to protect the people and to give them equality of opportunity; that the basis of all happiness is in development of the individual, that the sum of progress can only be gauged by the progress of the individual, that we should steadily build up coöperation among the people themselves to these ends.

"The other idea is that we shall, directly or indirectly, regiment the population into a bureaucracy to serve the state, that we should use force instead of coöperation in plans and thereby direct every man as to what he may or may not do.

"These ideas present themselves in practical questions which we have to meet. Shall we abandon the philosophy and creed of our people for 150 years by turning to a creed foreign to our people? Shall we establish a dole from the Federal Treasury? Shall we undertake Federal ownership and operation of public utilities instead of the rigorous regulation of them to prevent imposition? Shall we protect our people from the lower standards of living of foreign countries? Shall the government, except in temporary national emergencies, enter upon business processes in competition with its citizens? Shall we regiment our people by an extension of the arm of bureaucracy into a multitude of affairs?

"The future welfare of our country, so dear to you and to me for ourselves and our children, depends upon the answer given."

Columbus Discovers a Hero

NO. 10: HEROES OF THE ARMY OF INDUSTRY

An episode in the life of a street railway employee whose act of bravery affected the attitude of the public toward the company he served.

By ARMSTRONG PERRY

ANYBODY who thinks that trolley cars do not go fast enough in these days of mile-a-minute runabouts ought to have been in B. H. Dease's shoes on July 24th.

If any reader remembers with regret a day when he cranked his car with the clutch in and ran over himself, the story of Dease will help him to realize that, no matter how bad things were, they might have been worse.

Dease is a street car operator in Columbus, Georgia. He handles the starter and the brakes, collects the fares, keeps the crowd happy in rush hours, remembers where the regular customers get on and off, and does a thousand and one little things that mean much in the public relations of a public utility corporation.

Like all good operators, Dease's routine reactions became, long ago, matters of habit. He can feel the distance between the front end and a passing truck subconsciously and adjust the speed of his car to it, while concentrating on a flustered woman who has just remembered that she left her baby in a department store

and who is determined to get off right now whether the door is open or not. When she descends he knows, without looking, that she is facing the wrong way and will sit down with emphasis unless he waits to make sure that she has let go before he starts the car again.

BUT routine reactions are not all. Now and then something different happens, something that never happened before. Then a street car operator has to think fast. If he misses his guess, somebody "goes west." In spite of the fact that the man who kills someone accidentally suffers more than anyone else concerned, and that his company usually tries to do the right thing, fatal accidents always make a bad impression on the public—a bad impression that lasts for years and sometimes develops into an unreasoning ill will.

Every street car operator, therefore, is as much of a public relations man as though he had the title.

DEASE'S car was covering its usual route on July 24th in its usual way. There were passengers aboard.

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It turned into a street where grass grew between the tracks. City employees had mowed the crop and let it fall where it would. Much of it was on the tracks. With the car moving at normal speed, this seemed to make no great difference. But suddenly a child appeared between the tracks, thirty yards ahead, and the brakes had to be applied for an emergency stop. Instead of stopping, the car ground the grass into an oily pulp beneath its wheels and slid along like a sled on a frozen pond.

It was a moment when a decision had to be made without reflection. The little girl, a tot of eighteen months, was sitting there absorbed in her play and unconscious of her danger. If he startled her by clanging the gong she might be too frightened to move. If she tried to get up and run, her little legs which so lately had learned to walk would surely be unsteady.

As he put everything he had on the brakes, Dease sensed all this, and instinctively he knew that the only sure way of saving the child was to take her off the tracks—and he was the only person who could possibly do that. Whether he could or not was uncertain. If he tried, it meant that he must take his life in his own hands.

THE passengers on the car did not know just what was happening. They only saw the door open and caught a glimpse of Dease as he shot through it. The next instant the car was sliding along with no one in control. Dease was on the ground, racing it, barely a jump ahead.

A single misstep on the slippery grass, a rolling stone beneath his feet,

the slightest hesitation, meant death to both himself and the child. It might mean worse than death, the horror of a living but badly mutilated body.

The car was so close upon him when he reached the little girl that Dease did not know whether he was in time or not. Skidding along as though the rails were greased, it loomed above them.

The child was awake to her peril now. Her face worked with helpless terror. Her sunny play-world had suddenly gone black and held a menace that she could not understand.

Then came the moment that told the story.

Running hard on the slithery, uncertain footing, mustering his strength while his heart almost stopped beating from the intensity of his effort, he snatched up the child and lunged for safety outside the rail.

THE car passed the spot where the child had sat and stopped yards beyond, like a lion that has missed its kill. Around Dease and the rescued child gathered the passengers, who had not even felt a jolt as the thrilling drama reached and passed its climax. Neighbors came and, of course, little Mary Ellen's mother who had come so near to losing her darling. Dease, just a moment ago a plain street car operator, had been discovered by Columbus and was a popular hero.

Then came reporters, and big headlines in the papers, and other embarrassments. It was pleasant in a way, but bewildering. What else could a man do but his best, and why make

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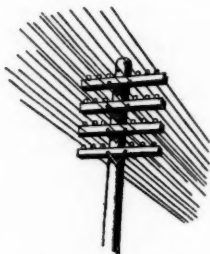
so much fuss about it? That was, in general, the attitude modestly assumed by Dease.

The Columbus *Ledger* hit the nail on the head in an editorial. Among other things it said:

"It was so successful and had such a happy ending that the whole city is pleased, and Mr. Dease deserves

the admiration and thanks of all the people."

So did Dease honor himself, his family, his employers, and his community by having the stuff in him to meet an emergency. If he had a million dollars and a steam yacht he could do nothing that would be more helpful to all concerned.



Hot Off the Press Sheets—

THE first 10-cent car fare in the United States was installed on the Yonkers, New York, horse car lines in 1864. The road, three miles long, was unprofitable, so it died in a few years.

POLICEMEN of Wolverhampton, England, have been supplied with "move on" slips for autoists who park their cars too long in main streets. The slips which are placed in the cars, contain spaces where officers can fill in the license number of cars and other details; a footnote reads: "This vehicle is causing obstruction. Kindly remove it to a parking place and lessen the possibility and facilitate the movement of traffic." On the reverse side of the slips is a map of the city, showing the principal parking spaces.

IN Turkey the faithful now may be called earlier and louder for prayer without requiring a priest to climb a tall tower in the chilly dawn to do it personally; experiments are under way with radio amplifiers and loud-speakers to give the traditional call of the muezzin from the tops of the mosques at the hours specified for religious services. It is possible to connect the local amplifier and loud-speaker of each mosque to a radio receiver and to broadcast the necessary calls from a central radio station, so that one good radio announcer acting as muezzin can serve the whole country at once.

SCIENCE finally has found a use even for the singing sound of telegraph wires in the wind to forecast the weather. If two reasonably long wires are strung on pole lines at right angles to each other, it is noticed that the singing of one of these wires represents at any one instant a different intensity or a different musical note from the singing of the other wire; by the use of special electric recorders to keep track of these variations, it is found that they correspond almost exactly with the arrival of oceanic or other storms. The wires begin to sing while the storm still is scores or hundreds of miles away.

As Seen from the Side-lines

MR. HOOVER's tour of the West was widely interpreted as the "opening gun" of his campaign for renomination and reelection.

THAT signification was quite universal. If Mr. Hoover, himself, had agreed to that translation, it would be unanimous.

HOWEVER, let us enroll ourselves for the moment in that class of orderly citizens who consider that any semblance of controversy with the presidential mind is delicate, and let us assume for ourselves that the public regarded it as such despite the President's desire in the matter.

THE Republican members of the legislature of Illinois said he increased the party's chances of victory. Republican Congressmen reached for the signs of the times, examined them and allowed that Mr. Hoover had done well by himself and by themselves. There resulted a common acceptance of the surmise that Mr. Coolidge would not be a candidate until 1936, if then.

HIS speeches have been read. His discussion of business depression and his projection of what might be termed a 20-year plan have been absorbed. On their basis, the Republican chieftains are looking for a slogan.

PERHAPS Secretary of the Interior Wilbur summed it up. "He kept us out of communism."

WE have had only occasional bread-lines, they tell us, and we have remained firm as a government while nations have tottered and collapsed all around us "and the red flag of communism been hauled to their mastheads."

It is a fact, not to be sneezed at, that

governments changed so fast in Latin America that Mr. Stimson needed an abacus to keep count of them and a complete "Who's Who" of South America to identify one president and prime minister after another. William Jennings Bryan established the State Department record of executing the largest number of treaties. Stimson will go down into history as the one who gave the glad hand of recognition to the most governments.

WELL, with the party lines drawn, "He kept us out of communism" on the one hand, and "He kept us out of work" on the other, the campaign may be said to be on and we now can confidently look forward to the moment when the statesmen will begin to scold the public for not taking a deeper interest in public questions.

TRULY, we are a nation of paradoxes, if we were to believe all we hear. We will hear from one throat, befitted with the ascot tie of statesmanship, that the Republican party has brought to us the most stupendous prosperity which the world ever indulged and brought us to an eminence of intellectual and cultural superiority which Plato and Aristotle would have regarded as incomprehensible.

AND from the next throat, we will be assailed for our lack of interest in public affairs. On the one hand, we are the government which has attained greatness; on the other, we are a thing detached.

I HAVE taken occasion to look over some election figures. I found them fascinating, intriguing, and, as the patter of Washington goes, "delicious."

It was surprising to learn that in some of the states, in several of them,

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in fact, but two years ago, in excess of 94 per cent of all the registered voters participated in the presidential election.

NINETY-FOUR per cent is not only a vast number, but it is more than enough to register the fixed, settled sentiment of the country. Compare it with some of the minority blocs in the Congress which scolds the people, and you will find it to be utterly overwhelming in its proportions.

HAVING computed those figures, I made it a point of asking the first fourteen persons I met and knew, "Are you a stockholder in any substantial corporation?"

TWELVE of them ruefully admitted they had been and eleven of them admitted they still were.

"HAVE you ever attended a stockholders' meeting?" I inquired.

NOT one of them ever had attended a stockholders' meeting.

I THEN inquired if they knew the total stock issues of the corporations in which they had invested their coin, the surpluses, the character of their contracts, and, most important to my way of thinking, the characters of the officers and their subordinates.

THE replies were frank, and they were dismal. They can be summed up in a single word, "No."

THE fact leads us into many realms of thought, from which diverse deductions may be drawn.

It would seem that a vastly larger proportion of the people take part in and have some information about public affairs than in the business organizations to which they entrust their heard-earned cash.

SOME critics may respond, "True enough; but having this information, they demonstrate their incapacity to de-

cide wisely. Look at Congress as the horrible example."

HUMAN life is said to be a series of contradictions, with nothing fixed save death and taxes. It is true only in the exceptions, not in the substance. Things have a way of righting themselves and of finding their way back to a permanent, harmonious basis.

IF it be true that investors in great corporations have little knowledge of their character and inner dealings, the public officials who happen to be members of public service commissions have a larger responsibility in regulating those utility organizations for their protection and for the common good.

IF it be true, also, that the public knows more about questions of public policy than the politicians would have us believe, these regulating officials may reasonably assume that their activities and acts are under a more general scrutiny than they are aware.

MANY of the lighting companies of this country have brought down their rates voluntarily while at the same time projecting large programs of public expenditures for expansions and developments.

IN some of the states where this policy has not been adopted, we see evidences of concentrated demands for election of the state officials who comprise the regulatory boards.

THESE signs of the times are evident.

ANYTHING may happen in a country which feels it has been in the middle of an era of depression; in a country where a presidential campaign is accepted as having been begun ere the period of economic adjustment.

THE wise will read the signs correctly.

John T. Lambert

WHAT READERS ASK

Out of the mail bag of the editors have come these questions; because they touch upon subjects of broad interest to those in the public utilities field, they have been selected for publication—together with the answers. What questions do you want to ask?

QUESTION

I have read with interest Mr. Kimball's article on a suggested contributory pension scheme for railroads, which appeared in the May 28th issue of PUBLIC UTILITIES FORTNIGHTLY. It would be enlightening if you would give one or two examples showing how the plan operates. For example:

(a) For an employee starting work at a relatively early age:

(b) For an employee, say, age fifty who has completed twenty years of service.

I am particularly interested in seeing to what extent the plan will work out to be a pension payment saving to a railroad.

ANSWER

In case (a), let us assume that a man joins the plan when he is employed at the age of twenty-six on a salary of \$1,200 a year; when he is thirty his pay goes to \$1,500; when he is forty it goes up to \$1,800; when he is forty-five it goes up to \$2,400 where it remains until he is retired at age seventy.

As the employee is aged twenty-six, his contribution is 2 per cent of pay.

His pension as a subscriber under these circumstances would be:

4 years (to age 30) x \$18 (1½ per cent of \$1,200), or	\$72.00 a year
10 years (to age 40) x \$22.50 (1½ per cent of \$1,500), or	225.00 a year
5 years (to age 45) x \$27 (1½ per cent of \$1,800), or	135.00 a year

25 years (to age 70) x \$36 (1½ per cent of \$2,400), or 900.00 a year

Total pension payable for life \$1,332.00 a year
Employee's total contribution of \$1,776 provides \$604.00 a year

Pension payable by the railroad \$728.00 a year

Under the existing plan the sum payable by railroad would be (1 per cent x \$2,400 x 44), or \$1,056.00 a year

Yearly saving in pension payments \$328.00

In case (b), assume that a man joins the plan at its installation when he is aged fifty, with twenty years of service. His annual pay based on last payroll period prior to installation of plan is \$2,400. When he is fifty-two his pay goes to \$2,700; when he is sixty it goes up to \$3,000, where it stays until he is retired at the age seventy.

As the employee is aged fifty, his contribution is 3 per cent of his pay.

His pension under the circumstances would be:

(a) For service before adoption of new plan:

20 years past service x 1 per cent of \$2,400, or \$480.00 a year

(b) For service as a subscriber to new plan:

2 years (to age 52) x \$36 (1½ per cent of \$2,400), or 72.00 a year

8 years (to age 60) x \$40.50 (1½ per cent of \$2,700), or 324.00 a year

10 years (to age 70) x \$45 (1½ per cent of \$3,000), or 450.00 a year

Total pension payable for life \$1,326.00 a year
Employee's total contribution of \$1,692 provides \$282.00 a year

Pension payable by the railroad \$1,044.00 a year

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Under the existing plan, the pension payable by the railroad would be (1 per cent x \$3,000 x 40), or \$1,200.00 a year
 Yearly saving in pension payments \$156.00

—INGALLS KIMBALL.



QUESTION

The New Hampshire laws provide that:

"The term public utility shall include every corporation, company association, joint stock association, partnership and person, their lessees, trustees, or receivers appointed by any court, except municipal corporations, owning, operating, or managing any plant or equipment or any part of the same for the conveyance of telephone or telegraph messages or for the manufacture or furnishing of light, heat, power, or water for the public, or in the generation, transmission, or sale of electricity ultimately sold to the public, or owning or operating any toll bridge, or owning or operating any steam or other power boat engaged in the common carriage of passengers or freight."

1. Is a corporation a public utility from the moment it files a petition purposing to do something, or not until the regulatory body has granted authority through formal petition to act as a public utility?

2. Does incorporation by a jurisdiction or body other than the public service commission, or a corporation with the stated purpose to act as a public utility, constitute the said corporation a public utility, either through the act of incorporation or by the mere act of the corporation in filing a petition with a regulatory commission for permission to build

a plant or dam, or for the development of riparian lands owned by the corporation?

3. Must a corporation await consent or approval of, or a permit from, a duly constituted regulatory body before it can be designated a public utility?

ANSWER

There appears to be very little authority on the questions you ask. In an Indiana commission case, however, it was held that an electric utility that also has the right under its charter to do an interurban railway business but is not engaged in that business is not a common carrier engaged in the transportation of freight or passengers within the meaning of the Indiana statute. (*Re Indiana Electric Corporation*, P.U.R.1924E, 333.)

In a Colorado commission case the contention was made that an applicant for a certificate of public convenience and necessity was not a "public utility" within the meaning of that term as defined in the Colorado statute. The statute provided that "the term 'public utility' when used in this act includes every . . . corporation . . . operating for the purpose of supplying the public for domestic, mechanical, or public uses." The commission pointed out that to hold that a corporation was not a utility until it began operation would foreclose the entry of any new company in the public utility business unless it began operation without a certificate of convenience and necessity which would be a violation of the same statute. (*Re Colorado Gas & Oil Pipe Line Co.* P.U.R.1925A, 499.)

It must be remembered, however, that the mere fact that any business is designated a public utility by statute does not make it a public utility in fact. The questions asked are important from the standpoint of the obligations of the company. For example, after the incorporation of an electric company, can the company be compelled to apply for a certificate of public convenience and necessity? If such a corporation has applied and obtained it, can it be compelled to render service on the theory that either the act of incorporation or the act of obtaining a certificate of convenience and necessity makes it a public utility? The sound view would seem to be that a corporation does not become a public utility in fact until it actually renders service and holds itself out to the public in general as engaged in such business although, obviously, before doing so it may have to apply for a certificate of public convenience and necessity and for franchises.

What Others Think

A Call Upon the Utilities to Lead a Counter-Attack Upon Their Assailants

THE most stirring of the addresses given at the recent convention of the National Electric Light Association in Atlantic City was that of Mr. W. C. Mullendore, vice president of the Southern California Edison Company. Mr. Mullendore voiced in emphatic language the very sentiments which have been so often expressed by contributors to PUBLIC UTILITIES FORTNIGHTLY; namely, that unless the utilities presented their case to the public; unless they stood up and hit back at their assailants, they would sooner or later find themselves face to face with a crisis in their public relations.

MR. Mullendore finds that the politicians who have been so busy posing as modern St. Georges have been having difficulty finding dragons to slay for the edification of the electorate. He finds that they have at last pounced on the "power trust" issue as the nearest thing to a fat and feeble dragon that they could find. Incidentally, these St. Georges appear to be exceedingly wary about attacking the more ferocious dragons such as the Prohibition issue; that dragon has teeth and a back spring that has sent many a self-avowed champion of the people to his political death. The power trust dragon, on the other hand, has so far shown no teeth, very little inclination to fight back, and exhibits other characteristics that appeal to timid political St. Georges. Nobody likes a trust and the power trust is no exception; so everybody jumps on it; it apparently is "too proud to fight."

But is the monthly power bill the real issue which has been raised by these political heroics? Mr. Mullendore finds

that it is not. He finds that a really big issue has now been aroused. He describes it as follows:

"The real issue which I find has been raised by the prevailing attack upon the electric utility industry is whether the power of public office shall be wrongfully employed to undermine confidence in and destroy the good will of legitimate American business in order to prepare the way for a program in direct conflict with basic American principles; whether it is in the public interest that the destructive forces of fear, envy, hatred, suspicion, and distrust shall be aroused through false accusations, unjustified abuse, and vilification of American institutions,—to the end that socialism shall replace American individualism and that a few men shall be enabled to hold the limelight by posing as defenders of that which they themselves are attacking. There is also involved the broader issue of whether leadership which attempts to destroy existing human institutions through employment of the forces of hatred and appeals to the baser emotions of mankind shall in America triumph over constructive leadership which relies upon the forces of reason and appeals to calm judgment and common sense."

Mr. Mullendore strikes out boldly against the government ownership advocates, charging them with being either socialists and communists, but he is fair in his argument; he does not think the mere branding of an opponent as a "socialist" is a point scored. He does not confuse argument with epithet. On the contrary, he respectfully submits that he personally favors a capitalistic form of government, and that those who sincerely differ with him ought to be honest about what they are really after instead of masquerading about as mere utility critics.

Furthermore, Mr. Mullendore undertakes to point out specific links between socialism and the anti-utility political

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group by showing, for example, that Mr. Carl Thompson, editor of *Public Ownership Magazine*, was formerly a campaign manager for the National Socialist Party. He feels that it is the duty of the utilities to bring such matters to the attention of the public so that the full significance of the issue may be revealed. He states:

"What, then, is our duty? Is it fulfilled by simply attending to the management of our properties, improving our service and reducing its cost? I venture the opinion that it is not; that our duty requires not only an exposure of their misrepresentations but of the true motives and character of these impostors who, under the guise of serving the public interest, are in fact doing their utmost to injure the public interest. If a citizen knows of the existence of a pyromaniac in a community, duty as a good citizen is not wholly fulfilled by putting out the fires as they are started. Duty is not fully performed until the firebug is exposed and restrained from starting more fires. When a malicious slanderer attacks and attempts to destroy the good character and reputation of a citizen, the individual so attacked is not properly protecting either his own interest or that of the public by limiting himself to denial of the slanders which are spread against him. He must take action against the

slanderer that will prevent that man from slandering others."

ALL in all, Mr. Mullendore's attitude has a red-blooded, rugged Western tang to it—an attitude that has, unfortunately, sometimes been lacking in utility spokesmen of the past. Of course, there is some danger that a number of utility champions, such as Mr. Mullendore, might in the excess of zeal overstep the limits of diplomacy that would irritate the Man-on-the-Street and undo much of the patient work so far done in building up good public relations. There seems to be in his style a slight tendency toward the *argumentum ad hominem*, an inferior brand of logic that is occasionally effective but which ultimately becomes unconvincing. But these are chances that are well worth taking with a man who possesses two such hard-hitting rhetorical fists as Mr. Mullendore.

—D. L.

IN THE PUBLIC INTEREST. By W. C. Mullendore. An address delivered before the National Electric Light Association at its annual convention in Atlantic City, June 9, 1931.

A Mathematical Analysis of the "\$500,000,000 Plunder of the Power Trust"

GOVERNOR Gifford Pinchot, of Pennsylvania, probably outdid even his own previous efforts in striking at the "power trust" in his address of June 2nd before the Governor's Conference at French Lick Springs, Indiana. True, the June 2nd speech was not as spectacular as some of his previous utterances, particularly those in which he classified the utility interests with gangsters; but it carried far more weight because, instead of outbursts of personal opinion, it purported to lay before the state governors specific evidence of a grave menace to our republic which exists in the form of the modern utility industries.

He charged that the utilities were

"far and away the strongest political power" in his own and probably in most of the other states. In Pennsylvania, he said that the utilities do not dominate the Republican party at present, but they do dominate the "party machine" through the assistance of party leaders, as evidenced by the defeat and blocking of his proposed anti-utility and anti-public service commission legislation. Furthermore, the governor thought that the situation would not be much different if the Democrats were in control at Harrisburg.

THIS powerful political influence is the joint result of the failure of utility regulation and the incredible ex-

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World-Telegram, N. Y.

THE OLD ALIBI

pansion of utility service. In two generations, starting from scratch, the power industry alone has attained a total investment of twelve billion and at least fifth rank among all industries for invested capital. The last half century has seen 70 per cent of America's homes wired and 80 per cent of her industries electrically powered. The Bureau of Applied Economics, a private investigating agency in Washington, reports that 70 per cent of the total electrical generation in this country is controlled by four major interests—inter-

ests which in turn are united in the common purpose of preying upon the public.

THE foregoing statements constitute the governor's specific charges against the power industry. He goes on to identify the component units of the power trust as follows:

"If we assume that the control of the 9 per cent is distributed in the same way as that of the 91 per cent, which seems conservative, we find that the following groups control the per cent of central station power set opposite their names:

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<i>Name of Controlling Interest</i>	<i>Per Cent</i>
Morgan-Mellon group	57.12
North American group	14.03
Harris, Forbes group	12.36
Insull group	10.80
Municipal and government	2.49
Not identified	3.20
100 per cent	

"Already the Morgan-Mellon interests cover nearly every part of the United States, as shown in the following table:

<i>Section</i>	<i>Per Cent of Control</i>
East North Central	32.60
West North Central	34.51
New England	65.59
West South Central	68.04
East South Central	72.45
Middle Atlantic	83.86
South Atlantic	86.76
Mountain	92.70

The governor goes on to suggest an ultimate union between the Morgan-Mellon interests and Harris-Forbes, and a union between the new combination thus created and the Insull-North American group, bringing 70 per cent of all electrical service in the country under a common control. From this he argues that the prediction he made twenty-five years ago as to the coming of a unified electric power trust is about to be vindicated. He gives details of the corporate structures upon which he bases his claim of the control exercised by the various interests mentioned, commenting on such intermediary holding companies as Electric Bond and Share. He concludes with a plea for national regulation and says that the principle of "states rights" should never

be used to cover up the plundering of the people by the power trust.

THE energetic Mr. Thomas Woodlock, former Interstate Commerce Commissioner and now commentator *par excellence* of the *Wall Street Journal*, classes Governor Pinchot's utterances at French Lick with Professor Einstein's theories—all very well if true, but who can prove them? He takes particular exception to the governor's charge that the annual "plunder" of the power trust amounts to \$500,000,000. He states:

"In 1930, according to preliminary figures compiled by the National Electric Light Association, the number of customers served and the total revenue collected from each class were as follows: (See table at bottom of this page.)

"Now, the power trust's 'plunder' of \$500,000,000 must be somewhere in the right-hand column. Inasmuch as the first three items in that column account for 92 per cent of the total, it is obvious that it is in these items that the banditry must mainly have been committed. Sales of power at wholesale, as everyone knows, have to be made competitively against the other forms of power, as is evident from the fact that the average revenue received for it is 1.43 cents per kilowatt hour. Consequently, there is evidently no real scope there for monopolistic exploitation, and we are driven back upon the first two items, which, together, total \$1,261,800,000; the \$500,000,000 'loot' must be concealed in that total. Thus far, we seem to be on firm mathematical ground.

"We thus are driven back upon the domestic or residence customer as the helpless source of \$500,000,000 'graft' extracted by the 'power trust' bandits. Last year, he paid into the 'trust' coffers a total of \$668,500,000. From that, take \$500,000,000



	<i>No. of customers</i>	<i>Kilowatt Hours sold (in 000,000s)</i>	<i>Revenue</i>
Domestic service	20,400,000	11,075	\$668,500,000
Commercial (retail)	3,664,000	14,400	593,300,000
Commercial (wholesale)	546,750	41,020	585,150,000
Street lighting	27,100	2,200	92,725,000
Street railroads	815	4,945	45,125,000
Other railroads	22	590	6,120,000
Municipal and miscellaneous	25,000	410	8,640,000
Totals	24,663,687	74,640	\$1,999,560,000

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and we have left \$168,500,000 as the proper amount that he should have paid. He consumed on an average 45 kilowatt hours per month, and paid a monthly bill of \$2.75, whereas 'ex-loom,' he should have paid a monthly bill of about 70 cents."

MARK Sullivan, writing in the New York *Herald Tribune*, has brought forth a subtle explanation for Governor Pinchot's presidential candidacy. He says that the governor's candidacy is being used by the "draft Coolidge" promoters as a shield and an opening wedge into the Hoover opposition. He says:

"The one indispensable step, without which they can do nothing, is that Governor Pinchot should oppose Mr. Hoover for the nomination. The group incubating the 'draft Coolidge' movement are as far as possible from sympathizing with the politics of either Mr. Pinchot or the 'pro-

gressives.' Some of them, indeed, are associated with the public utility industry. Their interest in Mr. Pinchot is merely the hope that Mr. Pinchot by fighting Mr. Hoover will stir up the maximum of opposition to the President. As soon as Governor Pinchot has done that the plan of the group is to 'bear down' on former President Coolidge."

POLITICS is proverbially credited with creating strange bedfellows, but it takes the daring of Mark Sullivan to put Governor Pinchot in the same bed with the arch-enemies of the power trust.
—F. X. W.

REPORT OF THE GOVERNORS' CONFERENCE.
United States Daily. June 8, 1931.

PINCHOT'S "TRUST." By Thomas F. Woodlock. *Wall Street Journal.* June 8, 1931.

PINCHOT USED BY FOES. By Mark Sullivan. *New York Herald Tribune.* June 4, 1931.

The Alleged Gag in Wisconsin on the Opposition to Utility Legislation

A SUPERIOR court in Dane county, Wisconsin, on May 18, 1931, dismissed charges against William J. Hagenah, general counsel of the Byllesby Corporation, and Ethan B. Minier, former member of the state assembly, for alleged violation of the Wisconsin lobby law in connection with utility regulatory legislation. Charges against Paul H. Raihle, of Chippewa Falls, were about to be heard at this writing. These cases resulted from an investigation made by the state senate at the request of Governor Philip F. La Follette into charges of attempted bribery of a member of the senate and the failure of the defendants to register as lobbyists.

This news comes simultaneously with the distribution of a pamphlet issued by Editor John B. Chapple, of the *Ashland Daily Press*, protesting against tactics of the progressives who control the legislature at Madison in attempting to muzzle critics of their utility legislative program. Editor Chapple seems to be very angry. He says:

"My personal experience with these men in the Progressive 1931 legislature has convinced me that they are trying to throttle all opposition, frighten the citizenship of the state, and gag the press by intimidation and threat. . . .

"The repeated efforts to gag me at Madison are, in my opinion, just the forerunner of an attempt to establish a statewide gag for every industrial organization in Wisconsin.

"What happened to me was, in my opinion, just an incident in the most ambitious scheme to set up state socialism upon the wreckage of private industry that has yet been attempted."

WHAT happened to Mr. Chapple was this: It appears that he went to Madison, in March, voluntarily to testify before the assembly taxation committee against a bill making it an offense for any Wisconsin industry to influence legislators, or to promote the candidacy of any person for nomination, appointment or election to public office. During his testimony he was frequently interrupted by the chairman.

The editor went back to Ashland and found that a member of the assembly

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was proposing to answer his (Chapple's) arguments on the floor of the legislature. Not fancying a one-sided presentation, Mr. Chapple wired an offer to testify before the assembly as a committee of the whole. It was refused.

Then he wrote an editorial denouncing the treatment he had received. The Progressives threatened to subpoena him. He did not wait for a subpoena but went back to Madison and into the public gallery of the legislature just in time to hear a resolution read calling upon him to justify his editorial. The speaker asked if Chapple were present. Chapple arose and said, "Here I am." Whereupon, the speaker ordered him removed because lobbyists are not permitted in the public galleries. Chapple protested that he was not a lobbyist; but the speaker was obdurate, and Chapple left. Immediately a member appealed from the ruling of the chair in ordering Chapple out of the gallery. The speak-

er refused to allow the motion on grounds that an appeal did not lie from such a ruling.

The next morning the speaker conceded that his refusal to allow the appeal had been of questionable soundness.

THESE are the facts, according to Mr. Chapple's own version, upon which he claims that the Progressives are attempting to gag opposition to their tax and utility legislation. The Wisconsin press, however, seems to be about evenly divided in its sympathy with Mr. Chapple's position. And when the press does not spring into action unanimously to repel an attack upon freedom of press or speech, it is wise to await further developments before passing final judgment.

—J. D. C.

IS GAG RULE TO BE TOLERATED IN WISCONSIN? An address by John B. Chapple, before the Ashland Rotary Club; 1931.

A Utility Corporation That Tried to Censor the Daily Press Learns a Lesson

A RECENT decision of the supreme court of Wisconsin has a very definite and peculiarly pertinent bearing upon the relations of the daily press with the public utilities. Ordinarily, court decisions are covered in our department "The Latest Utility Rulings," but this particular decision does not deal with utility regulation and is not the type of a case that would ordinarily be included in our department in "Public Utilities Reports," so it is recorded here.

The Milwaukee *Weekly Post*, on September 5, 1929, started a campaign against the street railway rate policies of the Milwaukee Electric Railway & Light Company. Some of the editorials became a bit inciting. Here is a sample:

"To Arms, North Milwaukeeans! Refuse to pay 6 cents for 2 miles of street

car riding. In Old Milwaukee, they can ride 10 and 12 miles on one fare. We, of the Newer Milwaukee, the victims of unkept promises, must pay 13 cents for a ride to our homes from our daily toil.

There isn't a policeman in the city who would arrest you for demanding your rights. Let's fight for our rights if it is necessary to use a club."

The railway company resented this to the extent of asking for an injunction to restrain the newspaper from publishing any further such inflammatory articles, and a lower court judge, Judge Gehrz, granted it. The case was appealed.

The wisdom of this policy was questioned editorially at that time by PUBLIC UTILITIES FORTNIGHTLY. Here is a passage from our March 6th (1930) issue:

"Granted that the proper place for trying rate cases is before the commission and

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not in the newspapers, will the legal vindication of the utility's position be backed up with figures on the credit side of the ledger? Whether the injunction is finally issued or denied, will the people in the community feel more or less kindly disposed towards the street railway company because of this controversy? Were there not other remedies available to the utility to compensate for its injuries? A newspaper may be sued for civil libel and its editors may be sent to jail for criminal libel."

THE course taken by the utility company eventually did stir up considerable antagonism, on the part of the press, to such injunctive proceedings. Editors in all parts of the country deplored what they considered an attempt on the part of the utility to "muzzle" the press, and in this way the obscure provincial editorial received

a thousand times more publicity than it otherwise would have gotten or, for that matter, than it deserved on its merits.

Now comes the news that the utility has lost even its pound of legal flesh. The Wisconsin Supreme Court on May 12th dismissed the suit for an injunction and declared that freedom of the press guaranteed by the Constitution prohibits the court from issuing an injunction against the publisher of articles in a newspaper, and asserted that every person is accorded the right to speak, write, or publish his sentiments on all subjects.

—J. D. C.

MILWAUKEE ELECTRIC RAILWAY & LIGHT CO.
v. THE SALES PUBLISHING CORPORATION.
Wisconsin Supreme Court. May 12, 1931.

The Problem of Valuating Land for Utility Rate-Making Purposes

THE old battle between the reproduction cost theory and the original or prudent investment theory in utility regulation has caused enough trouble wherever it has been applied to the value of utility structural properties. Most everyone has come, however, to think that the valuation of land in rate cases is a comparatively simple problem. Land always has a market value; it never depreciates so far as its physical condition is concerned, and any experienced real estate man can tell, in a few minutes, almost to a dollar what a given piece of land will bring in the open market.

Now comes Professor Ernest M. Fisher, of the Michigan University School of Business Administration, and tells us that the valuation of land for utility rate making is very complicated and, what is more, he proves his point. Market value is clearly not applicable to a utility's structural property for the simple reason that there is no open market for it. Offer a rail-

way system for public sale and see who bids for it, aside from the junk man. But to go further, market value (which, in the case of land, is usually controlled by the general price and value of adjacent property) cannot always be applied to utility valuation.

Take, for example, a typical water supply company established forty years ago. Water companies usually buy large tracts of land on the outskirts of communities for reservoirs and watersheds, and forty years ago they usually bought such land by the acre. Five hundred acres at that time would have cost the company possibly as low as \$30,000. But the city has grown up; and, in the usual course of events, property values around the beautifully landscaped grounds of the company have become desirable. Such land is no longer sold by the acre. It costs rather \$1,000 a building lot. But are we to apply present values to the company's 500 acres for rate making? If so, we would have to allow rates yielding a return on a land value of \$7,500,000!

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Of course, such rates would be impracticable. But this is where blind adherence to present-day market value of adjacent land has led us.

The above example is not by Professor Fisher. It is a rather exaggerated instance of some points which he makes in a more conservative way, tempered by authoritative decisions. Professor Fisher concludes:

"Clearly the value of land for public utility uses must be found, not by direct comparison with the value of adjacent lands put to other uses, although the value of adjacent and neighboring lands may properly be considered and may give a considerable amount of aid in the solution of the problem. Original cost, prudent investment, even the cost of duplication or sub-

stitution of other available land may prove valuable data for consideration. More important appears the consideration of the problem as a whole from the point of view of rate structures, volume of traffic, potential earnings under varying conditions, and the maintenance of the service through protection of the credit of the public utility. In the consideration of the value of the service rather than in the imputation of a definite value to each parcel or 'zone' of land will be found the basis of the value of land to public utilities."

It sounds rather complicated, does it not? Well, it is; Professor Fisher convinces us of that.

—M. M.

LAND VALUATION BY UTILITY COMMISSIONS.
By Ernest M. Fisher. *The Journal of Land & Public Utility Economics*. May, 1931.

The Economic Law Takes a Hand in the Regulation of Passenger Rates

A LITTLE over six months ago the directors of the St. Louis-San Francisco Railway Company, known as the "Frisco" line, sat around a table to hear the disheartening news that passenger receipts had dropped from \$21,000,000 in 1923 to \$8,500,000. More and more local operations were being written into the statements in red ink.

The cause for the slump was well known; there was no uncertainty of diagnosis. It was motor bus competition that was ravaging the company's passenger business. But what to do? A number of plans had been considered. There was merchandising. This plan was dismissed because the Frisco directors figured that the merchants, suddenly confronted with an outlaw competitor in the railroads, would meet cut prices as long as they could, and that all business was in the dumps anyhow. Rates could be increased. Past experience, however, had shown that increased rail rates usually played right into the hands of the competing bus carriers by driving more patronage to them. Frequently, as a matter of fact, it had reduced net rail reve-

nues instead of increasing them.

Finally, it was decided to give the bus carriers a run for their money. As rate increases had not been successful with other lines, the Frisco determined to try reduced rates. Two cents a mile was fixed. A great howl went up from rival railroads. They went to Washington to stay, if they could, this suicidal policy of the Frisco line, but the Interstate Commerce Commission refused to intervene. Failing in this they cut their rates in all territory competing with the Frisco lines, and in this way the railroads presented a united front to the bus carriers.

How is it working out? The Frisco's management refused to say until a six months' record had been completed, but John Austin could not wait six months. He went out and investigated for himself. His findings are contained in the May issue of the *Railroad Man's Magazine*. Mr. Austin seemed to think that it had been a great success. He found that bus drivers were riding around with two or three passengers while the Frisco had to add coaches to

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trains out of Fort Smith, Arkansas, to take care of the standing passengers. He found trainmen, conductors, engineers, all claiming that the Frisco was on the right track at last. He found bus men keeping a stiff upper lip and predicting that the Frisco could not last long at that rate. In other words, Mr. Austin seems to have made a fairly thorough independent investigation and found the experiment successful.

HOWEVER, something was apparently wrong with Mr. Austin's investigation, because May 28th brought news that the Frisco had asked and obtained permission from the Interstate Com-

merce Commission to go back on the old rate. From this application we learn that the average number of passengers increased under the 2 cent rate from 4,046 a day to 5,338 a day, but that gross revenues from passenger business had decreased from \$17,524 a day to \$16,988 a day. In other words, while there may be some value in the 2-cents-a-mile plan for some roads, the Frisco found it a failure.

—W. R. N.

TWO CENTS A MILE. By John Austin. *Railroad Man's Magazine*. May, 1931.

TWO-CENT MILEAGE FOUND TO REDUCE RAILROAD REVENUE. *United States Daily*. May 28, 1931.

The Press Associations Decry Radio as a Competitor and Demand Commission Regulation

THE member of the public utility family which is regarded as an interloper — radio broadcasting — has made its first important enemy in that modern incarnation of the fourth estate—the Associated Press and American Newspaper Association. Radio has apparently been poaching on the press preserves for some while, and newspaper men awoke to that fact with a start at the recent annual convention of the association in New York. The association's radio committee, headed by Elzey Roberts, of the *St. Louis Star*, revealed that the radio competes with the press in every department. An editorial in *Editor & Publisher* states:

"In regard to advertising the report revealed these astonishing figures; 107 leading radio advertisers cut their newspaper appropriations 12½ per cent in 1930 over 1929, while increasing their radio expenditures 63 per cent and increasing their magazine expenditures 6.3 per cent. This group of advertisers cut their newspaper lineage from nearly \$200,000,000 in 1929 to \$175,000,000 in 1930. They increased their radio time expenditures from \$12,000,000 in 1929 to nearly \$20,000,000 in 1930, not including the cost of entertainment and wire charges. The committee charged that the newspaper has over-exploited radio and in general the

press has hatched a chicken which now wears the feathers of a crow."

In other words, the fourth estate is beginning to feel the pinch not only in advertising, but also in news events broadcasting. Who remembers the old "extra" that the newspapers used to get out to sell for a nickel every time something happened that struck a managing editor as being out of the ordinary? Now the radio brings us football scores, Wall Street and racetrack results, and election returns far more quickly than the press ever did. The old "extra" paper racket is a back number.

THE New York convention assailed radio's lack of regulation, as well as short-sighted nurturing of it by the press. News activities and free publicity by radio are condemned. Newspapermen are urged to cooperate in "facing a common menace." In fact, *Editor & Publisher* becomes real annoyed about the situation. It states:

"In other words, the press-radio honeymoon adventure is all over. *Editor & Publisher*, which has sought for more than six years to arouse newspaper publishers to the inevitable danger of radio competition,

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is gratified by the news of the week. The turn has come. The free press of this country is too valuable an instrument to be dragged, as it is being dragged, by a monopolistic upstart with principles just a trifle above those of a circus or vaudeville promoter."

In the first place, it may be argued that radio is not a menace to anybody but to newspaper monopolists, most of whom have purported to be so horrified about other monopolies even though such monopolies, as in the case of the public utilities, have been regulated and under governmental supervision. In the second place, even if the radio were a menace, calling it names will not help at all. The press will have to put out a better argument than a series of epithets to make the average citizen turn off news broadcasting and buy a paper, or discontinue using a certain tooth

paste out of loyalty to Amos and Andy.

THESE observations are made merely to point out that when radio is regulated (and there is little doubt but that it soon will be regulated by the states as well as the Federal government), the public, or those who represent the public, will have to be on their toes to see that such regulation does not take the form of special protection for the fourth estate. Somehow, there seems to be something amusing about the position of the press which has been unregulated for so long (and which, let us hope, will continue so), crying so loudly for the regulation of a growing competitor.

—M. M.

EDITORIAL. *Editor & Publisher. The Fourth Estate.* April 25, 1931.

Other Articles Worth Reading

BUSINESS AND POLITICAL ASPECTS OF MUSCLE SHOALS. By Jose Bornn, Jr. *Barron's*; June 8, 1931.

ELECTRICITY AND THE FARMER. By Martin J. Insull. *The Financial World*; June 10, 1931.

MORE PUBLIC UTILITY PROBES LIKELY. *Barron's*; June 8, 1931.

MUSCLE SHOALS COSTLY POLITICS. *The Wall Street Journal*; June 8, 1931.

NIAGARA HUDSON: EXHIBIT A OF SUPER-POWER. *Fortune*; June, 1931.

Strong link in the strong chain of eastern utilities, Niagara Hudson has these incomparable assets; for raw material, Niagara Falls and (potentially) the St. Lawrence; for a market, the most populous, most highly industrialized state in the United States; for backers, such great names as Mellon and Morgan; for management, the brilliant Mr. Floyd L. Carlisle. If utilities are to gain importance as a political issue, here is the ideal test case. If superpower is desirable, Niagara Hudson is a notable public servant; if dangerous, an outstanding menace.

POLITICAL BUGABOOS. By Paul S. Clapp. *The Financial World*; June 10, 1931.

POWER CONTROL: WILL IT BE A FIGHTING ISSUE IN 1932? By Charles Merz. *The New York Times*; June 14, 1931.

REGULATION OF PUBLIC UTILITY HOLDING COMPANIES. By Joseph P. Chamberlain. *American Bar Association Journal*; June, 1931.

The services which a public utility holding company performs for the operating company are set forth in some detail in the author's introduction. By the character of these services the state is shown to have certain regulatory powers over the holding company. How far different states have gone in their regulation; and the tendency toward and agitation for greater regulatory control are discussed in conclusion.

THE EMPIRE STATE BUILDING MOORING MAST. By Charles Pickett. *Air Law Review*; April, 1931.

This article raises some interesting questions as to the legality of the use and maintenance of the famous parking space for dirigibles atop the world's highest building: First, is it an unlawful obstruction to aviation? Second, is it a nuisance as an inducement to unlawful flying of air craft over neighboring property? Third, is the use of the mast a nuisance or trespass against adjacent property?

THE GREAT ALASKA RAILROAD. N. E. L. A. *Bulletin*; May, 1931.

THE PUBLIC AND THE UTILITIES. By Daniel Starch, Ph.D. *The Financial World*; June 10, 1931.

The March of Events

Propaganda against Utilities Is Assailed

SPEAKERS at the recent convention of the National Electric Light Association at Atlantic City deplored criticism and legislation affecting the power business as "part of an organized movement of disguised propaganda aimed not merely at private ownership of utilities, but at American institutions and ideals." A call was made for united opposition to proposals which might lead to government ownership or the spread of doctrines which threaten to undermine public confidence in private enterprise.

W. C. Mullendore, vice president of the Southern California Edison Company, said that when the total annual tax bill of the people is \$12,000,000,000, the cost of crime is equally high, and the receipts of bootleggers \$2,000,000,000, a year, it seems unwarranted that attacks should be directed at a trade where a reduction of 10 per cent in light and

power bills would mean a difference of less than one cent a day in the average home.

T. O. Kennedy, chairman of the commercial nation section of the association, said that the power question was being used to obscure or conceal some more important aspect of our national life, perhaps Prohibition or increased governmental expenditures. He declared that the biggest problem before the industry was that of gaining or holding the confidence of the people in the face of "rantings of political demagogues."

Legislation never cured any business depression or provided employment for the idle, said J. F. Owens, first vice president of the association. He declared that the root of our economic difficulties is the problem of distribution costs; that the problems of production created by the machine age have been solved to some extent, bringing lower unit costs for goods; but that apparently we have not learned how to get them to the consumer in such a way that he may benefit fully from mass production.



California

Los Angeles Agrees to Finance Hoover Dam Line

THE city of Los Angeles, after several conferences with representatives of other communities, according to the *Glendale News-Press*, has agreed to finance the construction of a transmission line to carry electric energy from Hoover Dam to southern California cities. This decision was expected to facilitate the signing of a contract between the Federal government and the California communities for allocation and purchase of energy.

The Federal government had designated the city of Los Angeles as the agency for transmitting power, but the city power bureau suggested that all of the cities join in defraying the initial cost, which would run into many millions of dollars. Differences over this proposal have prevented action on the contract with the government. Los Angeles representatives have now conceded the point and will allow the various cities to defray their shares of the cost by spreading payments over a period of many years.

Savings from Natural Gas Are Doubted by Utility

OFFICIALS of the San Diego Consolidated Gas & Electric Company, says the *San Diego Sun*, have met a demand for natural gas in San Diego by an offer to submit a proposition on the question. They have indicated, however, that natural gas will cost as much as the present manufactured product, or more. The natural gas supply in northern fields is said to be too far away and too uncertain to permit bringing it to San Diego economically.

Electric Company Offers Re- duction for Ornamental Street Lights

A CONTROVERSY has been under way for some time regarding electric rates for ornamental street lights in the central lighting district of San Diego. Recently, we are in-

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formed by the San Diego *Sun*, the San Diego Consolidated Gas & Electric Company offered a reduction in the annual charge from \$84,000 to \$71,000. A smaller reduction was offered for other lighting districts.

It has been proposed that a municipal plant be constructed to furnish current for the

lighting district, but A. E. Holloway, new business superintendent of the utility, has argued that with the reduction offered the cost would be less than under the municipal plant plan. City officials were said to be cool towards the offer. They demanded a general reduction in rates.



Connecticut

Sponsoring of Improvement Proves to Be Boomerang

LAST year the Seymour Water Company was directed by the public utilities commission to lay 3 miles of new mains at a cost of \$100,000. The petition for this improvement, says the Bridgeport *Herald*, originated with William Tift, the registrar of voters and son of the town postmaster. Now the water company has asked for higher rates, giving as one of the reasons its expenditures last year; and Mr. Tift, instead of receiving gratitude for securing the improvement, seems to be the center of attack by irate townsfolk who object to the higher rates. Some of the citizens have intimated that they intended to communicate with the postoffice

authorities in Washington and complain about the postmaster's undue activity in political and civic affairs because he took an active part in the campaign for his son's election.

A committee has been appointed to fight the increase, but attempts to settle the matter by arbitration have failed. A proceeding before the commission is probable. The *Herald*, in a tirade against the utility, described as "the grasping water company," asserts that the concern, owned and controlled by New Haven people, is "out to wring the town dry of its cash." This paper advanced the theory that the company has made enough in the past so that it should not increase rates during an industrial depression.

Company representatives state that the rates have not been increased since the company was organized thirty years ago.



District of Columbia

Advisability of Union Bus Terminal Argued before Commission

INTERSTATE bus carriers, says the Washington *Star*, disagree over the advisability of establishing one or more union bus terminals in Washington. Eric Biddle, president and general manager of the Chester Valley Line, at a hearing before the commission warned that such a project would increase traffic evils.

The witness said that an absolutely disinterested form of management for a terminal could not be secured, and that there was bound to be favoritism shown. He cited, as a "horrible example" of mismanagement and chaotic conditions at bus terminals, the terminal in Newark, New Jersey. There, he declared, it took approximately two and a half years to work out completely all the details involved in the first interstate bus terminal, and after four years "they are still loading bus passengers from the streets."

Testimony before the commission developed the fact that two groups of interstate bus operators are planning to build union terminals in the downtown section. The commission took the matter under advisement after an assurance by Major General Mason M. Patrick, chairman of the commission, that the commission does not intend to run the busses off the streets until a proper terminal has been provided for their use. The Washington *Times* says:

"The commission chairman also revealed that at least twenty or more proponents of terminal establishments had conferred with the commission and that decision of erection of the terminal will be left solely to the bus lines with the commission taking no interest whatever in the promoting of a private enterprise.

"However, it is believed that the commission will, as a result of the hearing, draw up an order defining what is meant by the congested downtown area and draft regulations for interstate busses within this area.

"Eventually the commission, it is expected,

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will promulgate regulations ordering bus lines to cease using the public streets as terminals. This will not come, it is believed, until passage of a year or more to enable the various bus lines to seek and construct a terminal."

Increase in Gas Pressures Is Considered by Commission

THE public utilities commission on June 10th took under consideration the petition of the Washington and Georgetown Gas Light companies for authority to change gas pressures to a 10-inch maximum and a 3-inch minimum. Present rules require a 6-inch maximum and a 2-inch minimum, although in January the commission authorized a temporary 8-inch maximum to enable the company to meet an increased demand for gas for house-heating purposes. The Washington *Star* states:

"The companies told the commission they are incapable of supplying good service on a pressure range from 2 to 6 inches, and pointed out that present equipment, with projected improvements, would be perfectly capable of meeting all gas requirements with a range of 3 to 8 inches. The petition, however, specifically recommends a maximum pressure of 10 inches.

"No action, it was said, likely will be taken on the demand of the Federation of Citizens' Associations for prosecution of the gas companies for violating the pressure regulations, and the refund to consumers, whose bills it

said were abnormal due to excessive pressures.

"The commission, it was pointed out, has no authority to order the companies to reimburse gas consumers and even if it did, it could not determine within any degree of accuracy the amount of gas wasted on account of the high pressure and the proper amount of the refund.

"While it has authority under the public utilities act to penalize corporations for violation of its rules, the commission, it was said, takes the position that prosecution of the gas companies would be of no particular benefit, except to 'spank' the corporations.

"Any fines that might be imposed, it was explained, would be paid by the gas companies out of operating expenses and would ultimately be borne by consumers if the companies should use the additional drain on its revenues as a basis for increased rates."

Cash Pupil's Fare Urged

A PETITION has been filed with the public utilities commission to secure authorization for a 3-cent cash fare for children attending school. At present books of tickets costing \$1.20 must be procured to take advantage of the reduced pupil's fare.

It is contended that poor children are forced to walk to and from school because their parents cannot afford to purchase these books in advance. In this way, it is declared, the law does not help the poor children most in need of the 3-cent fare.

Florida

Utility Tax Is Voted

THE senate, according to the *United States Daily*, has passed a bill to levy a tax of 1½ per cent on the gross revenue of electric

and gas utilities, including those municipally owned, and on the intrastate business of telephone and telegraph companies.

An effort to eliminate the tax against municipal gas and electric plants failed.

Georgia

Commission Permits City to Spend Its Money for Appraisal

AN adjournment of ninety days to permit the city of Atlanta to make an independent survey and appraisal of the property of the Atlanta Gas Light Company was granted on June 5th by the Georgia commission.

In announcing the postponement, says the *Atlanta Georgian*, James A. Perry, chairman of the commission, declared that the city was "playing politics in the matter" and that "the officials would never be satisfied until they had made an independent survey of the gas property, although adequate surveys already had been made." Chairman Perry is quoted in the *Georgian* as follows:

"We cannot make rates on the feelings

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aroused at mass meetings of political organizations. I want to say that no utility can serve the public unless it has the confidence of the public. It does not matter how unfair the city may be in its criticism of this commission, it does not matter how much of the citizens' money it spends, regardless of the lack of reason for it.

"There is an aroused feeling in this case that has hurt the city of Atlanta no little, due to irresponsible statements which have created a distorted view. The city had endeavored to spend \$1,500 for experts and now wants to spend \$5,000 for an appraisal, de-

spite a depleted treasury, and in the face of facts already adduced before this commission.

"However, the confidence of the people will never be restored until the city is allowed to spend this money. If a mistake is made and the money ill spent, the mistake will be on the city's own head."

A request was then made by the company for a temporary increase in rates pending ultimate decision by the commission. It was contended that the property is being confiscated under any system of computation of values, and that the company must have relief.



Illinois

Prohibition of Merchandising Is Disapproved in Legislature

THE house committee on public utilities and transportation has adopted a report of a subcommittee recommending that the bill prohibiting public utilities from engaging in merchandising activities should not pass. The subcommittee report states in part:

"The entire testimony submitted on the part of the proponents of this bill was a critical survey of the merchandising business on the part of the public utilities gained through sales conditions and concerted activity in unfair advertising, and also as to unfair methods used in the collection of outstanding long-term installment accounts from the consumer on time-payment sales.

"Members of the committee are all in accord that the competition in the merchandising of electrical appliances is very keen, and that the utilities by the very nature of their business are in a better position to stimulate their sales, and although the principle involved in the subject matter of this act is a meritorious one in that certain unfair advertisements listing standard priced articles at a 10 or 15 per cent discount to the purchaser upon the return of articles of no value as a cash inducement were often practiced, yet the nature of this type of legislation may be revolutionary in its effect, and if enacted into law may result in the de-

struction of maximum marketing efficiency, and would promote the dormancy of inventive electrical appliance progress, and the public should also be considered.

"The true question as to whether or not public utilities should engage in retail business is a legal one, and can be determined as to whether or not said business is conducted in violation of their charters on a question of being ultra vires. If this bill were enacted into law, the public utilities could circumvent its purpose by creating independent sales corporations to handle the retail business, and the consumer would pay the costs of reorganization."

The subcommittee recommended that a commission be appointed to investigate the subject and that \$25,000 be appropriated for that purpose. The committee, however, rejected this recommendation.

City Enabled to Meet Payroll by Utility Advances

THE city of Chicago has been advanced \$2,000,000 by the Commonwealth Edison Company for franchise compensation. This amount was not due for several weeks but the utility notified the city that it would make the payment in advance as a means of assisting the city to meet payrolls overdue.



Indiana

Thermic Measurement Basis of Billing Arouses Doubt

SOME of the Indiana cities where a change has been made from the cubic foot to

the thermic basis of measuring gas for billing purposes seem to be doubtful concerning the advantages of the new system. At least one city has taken a stand against the new plan. The Tipton city council, according to the *Tipton Tribune*, believe that the present gas rates

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are "good enough." The city attorney was instructed to draft a letter of protest to be presented to the commission.

Certain questions were directed to Roy S. Brunner, vice president of the Indiana Gas Utilities Company, to obtain an explanation of the thermic measurement plan. In reply he stated that the change is a logical development in the advance of the gas business. Formerly, when gas was used as a source of light, it was valued by its candle power. Today when its lighting use has practically ceased and it has become principally a source of heat energy, it is the universal practice to value it by its heat content and it is only natural that it should be billed accordingly.

He said that the new billing plan would

not change the cost of service to consumers.

He further explained that under the new method the gas is measured by the consumer's meter on a cubic foot basis the same as at present. Its value in heat units is then easily computed according to the standards set by the commission.

It was also stated that in the event natural gas should be used the customer would use less gas by volume to obtain the same results in cooking or heating generally. The customer would pay only for the heating value of the gas furnished regardless of the volume. He denied that the substitution of the heat unit system of billing would prevent the consumer from effecting a saving in gas bills when natural gas is introduced.



Massachusetts

Rate Reduction Urged to Aid in Depression

COMMISSIONER Lewis Goldberg, at a hearing on a request for a reduction in rates charged by the Plymouth Gas Light Company, suggested the advantage of a rate cut in times of depression. He is quoted in the *Brockton Enterprise* as saying:

"Here we have a company in financial stress charging high rates in an effort to relieve conditions. Consumption falls off and the company is in worse financial stress. It might be well for this company to make a drastic reduction in rates."

Edward C. Mason, representing the utility, contended that this is not the proper time to consider a rate reduction. He referred to small earnings of the utility and the discontinuance of dividends as evidence of the hardships which the company has had to face. He maintained that a rate reduction would

not result in an increase in consumption.

Commissioner Everett E. Stone criticized the rate of interest charged by the Massachusetts Utilities Associates to subsidiaries for loans, but Mr. Mason declared that the utility secured the advantage of obtaining money from the holding companies as a perpetual source.



Reduction of Dividend Rate Is Sought

ONE of the purposes of the Boston Central Labor Union in bringing a petition before the department of public utilities for a reduction in rates of the New England Telephone Company, according to counsel for the union, is to reduce the dividend of the company from 8 per cent to 6 per cent. Hearings on the petition for lower rates have been in progress for some time.



Michigan

New Law Regulates Contract Motor Carriers

A LAW recently enacted by the Michigan legislature brings all motor carriers for

hire under the jurisdiction of the commission. Formerly only common carrier operators were required to submit to regulation and to pay a special tax. Now both contract and common carriers are to be regulated and they must both pay fees.



New York

Water Rate Probe Is Urged under New Law

AN ordinance has been introduced in the Utica common council to petition the public service commission for a review of water rates charged by the Consolidated Water Company. This is made possible under an amendment to the Public Service Commission Law which now gives the state body authority to fix water rates as it has heretofore fixed rates for other utilities.

Engineers have been engaged in surveying the properties of the company with possibilities of obtaining lower rates in mind. Mayor Donnelley has expressed the belief that evidence already gleaned by the survey is sufficient to indicate success of a suit for lower rates.

Unequal Gas Rates Attract Attention of Commission

THE public service commission has made public tables showing variations in the gas rates in different parts of the state. They are to be incorporated in the forthcoming annual report of the commission. The New York Times informs us:

"The tables, the commission's announcement said, are not intended as a complete statement of the rates in effect for domestic gas consumers but as a comparison of the monthly bills paid under those rates by typical consumers.

"The variations in bills were characterized by the announcement of the commission as 'wide.'"

Some rates reported for the first thousand cubic feet were as low as 65 cents where natural gas is used. Other rates for the same unit with artificial gas have run as high as \$2.30 a thousand.

There is speculation as to the action that the commission may take, but, says the Times, no confirmation of an indicated revision has been obtained beyond the statement of one official of the commission that he did not believe the tables would be made public unless the commission contemplated some action to change the situation.

Demand Charge Is Opposed by Real Estate Owners

REAL estate owners representing \$1,000,000,000 in assessed property values, says the New York Herald-Tribune, have authorized a committee to protest to the commission against the demand meter charge of \$1 included in the revised commercial rate schedule recently promulgated for the New York Edison system. An appeal to the courts may follow if the commission does not take action satisfactory to the real estate men. The Herald-Tribune adds:

"Former Justice Clarence J. Shearn, special counsel for the Real Estate Board, who has been opposing the New York Edison in its efforts to abolish submetering, explained that the real estate interests were not opposed to the rates for current fixed by the commission, but were determined to carry their battle to the courts against the demand meter charge. This charge, the real estate men feel, according to Mr. Shearn, is discriminatory and an indirect thrust at submetering.

"Imposition of the charge will cost real estate interests from \$6,000,000 to \$10,000,000 a year, Mr. Shearn said; will increase the cost of operating large buildings, which costs must be passed on in the form of increased rents, and will result in an immediate depreciation in realty values of about \$240,000,000. This depreciation, in turn, it was pointed out, will affect the tax rate.

"The demand charge of \$1 a month prescribed by the public service commission in its recent order readjusting the rates of the New York Edison companies applies only to commercial schedules. Heretofore the company has sold current to large property owners at a graduate commercial rate of 4 cents to 3 cents a kilowatt hour. The property owners have resold the current at domestic rates to their tenants. Under the public service commission's order meters must be installed for each tenant served and a demand charge of \$1 a meter is imposed on the property owner. This charge is said to represent the cost to the company of maintaining itself in readiness to furnish current."

The submetering question has been given much thought by the utilities, and a definite ruling may be looked for later.



Ohio

Cleveland Approves Gas Rates

A NEW gas rate for the city of Cleveland was approved on June 1st by the city

council. The ordinance provides a 55-cent average price for a thousand feet of gas.

Provision is made for a 50-cent rate for the first 2,000 feet; 55 cents for the next

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8,000; 60 cents for all over 10,000 feet; and a 75-cent monthly minimum charge for small consumers. The average rate would be 55 cents. At present Cleveland consumers pay on a sliding scale which averages 60

cents a thousand cubic feet for the service.

The gas company was expected to contest the validity of the ordinance. They could do this by filing a protest with the commission or filing suit in Federal court.



Pennsylvania

Water District Proposed

ANOTHER chapter in the Scranton-Spring Brook Water Service Company rate battle was written last month when a petition signed by seven hundred property owners asked for the creation and incorporation of a water supply district to comprise forty-one municipalities in Luzerne and six in Lackawanna county, where the utility recently increased rates. This was presented by representatives of the Municipal Water Ownership League of Wyoming Valley, says the Philadelphia *Public Ledger*, which adds:

"The petition was drafted in keeping with the terms of the recently enacted Harvey water bill, which paved the way for municipal ownership where a water company serves

more than one municipality with its plant.

"Judge Coughlin fixed July 15th at 10 A. M. as the time for a hearing. Officers of the Municipal League said that they expect to file supplementary petitions before that date bearing upward of 70,000 signatures.

"Among the reasons set forth for the creation of a water district, it is charged that the present water rates in the territory comprising proposed district are 'exorbitant, unreasonable, and prohibitive' and that the water service now being furnished in the proposed district is 'dilatatory, inadequate, discriminatory, and inefficient.'

"It is contended by the petitioners that the water district as proposed would provide reasonable and just water rates and promote adequate, proper, and efficient service."



South Carolina

Right to Tax Interstate Power Is Questioned

THE Lexington Water Company has brought suit in Federal court to test the validity of a recent law levying a tax of one-half mill per kilowatt hour upon power generated within the state. A temporary injunction against enforcement of the tax has been granted by Judge Cochran of the Federal District Court.

It is predicted that this case will eventually reach the United States Supreme Court as the points involved are of great importance. This court has upheld taxation of chain stores, coal which may be used outside of the state, natural gas destined for another state, and iron ore. The right of a state to tax property designed for disposition in interstate commerce has been upheld quite generally, while it has been held, on the other hand, that a state may not tax property which is in movement in interstate commerce.

Taxation of the generation of electricity is

distinguished by the utility from the taxation of the production of commodities which may be stored. The point is stressed that the power is generated in response to demands of those by whom the power is consumed so that it is, immediately upon its generation, in course of movement in interstate commerce.

It is contended that electricity is generated in South Carolina for use by consumers in North Carolina only if, as and when, the combined demand of consumers in North Carolina causes the turbine gates in the South Carolina generating station to open, thus permitting the energy of the falling water exerted within the turbine to be transferred instantly through the electric system to the North Carolina consumers, motors, lights, or other equipment.

The further claim is made that the tax cannot be maintained as an occupation tax, because under another state statute the company is assessed an occupation tax of 3 mills per dollar of its gross receipts.



Tennessee

Hearing on Utility Rate Reduction Is Demanded

A RESOLUTION has been passed by the house calling on the commission to hold a general hearing on the subject of reduction of electric power and telephone rates, says the Knoxville *Sentinel*, which continues:

"The three-page resolution recited that in view of the depression and general lowering of values, reduction in public utility rates would mean material relief to the people of the state. It petitioned the utility commis-

sioners to hold a hearing which would force all power and phone operators to show why their rates should not be reduced.

"The resolution was passed after a small group made numerous efforts to table it. Representative Stone attempted to amend to include gasoline and oil dealers, but withdrew the amendment when it was questioned as being out of order. Representatives Brown of Hickman and Green of Wilson moved to table the resolution on grounds that the utilities commission every day is holding hearings on the propriety of rates and that a general hearing would be valueless."



Texas

San Antonio Gas and Electric Rates Are under Fire

THE San Antonio city commission has authorized an investigation into gas and electric rates of the San Antonio Public Service Company with a view to securing a reduction, according to the San Antonio *Express*. A hearing will be sought before the state railroad commission, it is said, if the company does not voluntarily reduce its rates.

W. B. Tuttle, president of the company, is quoted in the *Express* as saying that the utility is operating at a 7 per cent profit. He denied a statement that Austin has a lower gas rate than San Antonio for all customers using 2,000 feet per month or less. In San Antonio the consumer pays 50 cents for the first 500 cubic feet, whereas the charge for the same amount in Austin is \$1, he said. He stated further that for 1,000 cubic feet, the San Antonio rate is 90 cents and the Austin rate \$1.17½, and San Antonians pay \$1.80 for 2,000 cubic feet whereas Austin residents pay \$1.85. It is said that more than 40 per cent of the gas users in San An-

tonio use an average of 2,000 cubic feet per month or less.

City Regulation Is Approved by Legislature

INCORPORATED cities with a population as small as 500 will be permitted to regulate the rates of water, gas, light, sewerage, and telephone companies under a bill passed by the legislature and signed by Governor R. S. Sterling, says the Houston *Chronicle*.

The inclusion of telephone companies is surrounded by some mystery. The record of the bill shows that as passed by the house it gave these cities authority to regulate the other utilities. No amendments to the bill were added in the senate, according to the record, but the bill as signed shows "telephone" inserted between gas and light companies. This word was said to have been written in pen on the copy of the bill as returned to the house from the senate, and the bill was enrolled with the word "telephone" in it, although there is no record of senate amendment to this effect.



West Virginia

Arguments on Temporary Gas Rate Submitted to Commission

THE public service commission on June 11th received the briefs of cities protest-

ing against a temporary rate of the United Fuel Gas Company. Oral arguments had been heard several weeks before.

The cities emphasized two points: First, "that if the power to install a temporary rate exists, it may be exercised only when

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the applicant carrying the burden of proof shows an emergency or unusual or extraordinary condition affecting the operating revenues and net returns," and second, "that even if the commission has the power to install a temporary rate pending a hearing, it is not justified in installing such a rate until the applicant has at least concluded its case in chief, and by the evidence then before the commission demonstrated that it is not re-

ceiving a fair return upon the present fair value of its property used and useful in the public service."

This temporary rate is the one to which the company reverted after a rate order of the commission had been set aside by the supreme court. The temporary rate, which was in excess of the former rate, had been placed in effect during the commission proceedings.



Wisconsin

State Public Utility Corporation Is Created

THE legislature has passed the bill recommended by Governor Philip F. La Follette which creates the "Public Utility Corporation of Wisconsin," but the senate defeated the bill which would have authorized municipalities to enter into competition with existing privately owned utilities without securing permission, says the *United States Daily*. The senate also rejected a proposal to create a state utility counsel.

A municipality, under the present law, may compete with a private utility if it first secures a certificate of convenience and necessity from the commission. The proposed law would have removed this restriction.

The new state corporation will be governed by five directors, appointed for 10-year terms by the governor with the advice and consent of the senate. They are to serve at a compensation of \$25 a day for attending meetings, with a maximum compensation of \$1,000 a year.

The state corporation is to enter into contracts with owners of utilities, including street and interurban railways, upon any terms not repugnant to the Constitution of the state for any or all of the following purposes, as set forth in the *Daily*:

"(a) To provide for the leasing, public operation, or joint operation of any part or all of the properties of such public utility, street railway, or interurban railway.

"(b) To provide for the control, operation, service, or management of such properties by either party or by both parties acting jointly.

"(c) To determine and fix by the terms of such contract, the value of the properties of such utility, street railway, or interurban railway to be used as a basis for the computation and distribution of such utility, street railway, or interurban railway.

"(d) To provide for the stabilization of the rate of return to the owner or owners of such properties.

"(e) To provide for the extension and improvement of existing properties by the state or otherwise.

"(f) To provide for the purchase of all or any part of such properties by the state, to fix the purchase price or the basis or method for computing the same and to provide for the payment thereof and the method of such payment out of funds provided by the state whether derived out of the earnings of such properties or otherwise, or derived in part from such earnings and in part from other sources.

"(g) To provide for the purchase by the state of mortgage bonds issued by such public utility, street railway, or interurban railway.

"(h) To provide for the submission of matters of difference arising between the parties to the railroad commission or to a board of arbitrators as the parties may agree.

"(i) To provide for reasonable equality of opportunity for all classes of consumers, actual and potential, within the state as to rates, service, and access to facilities.

"(j) To provide for such further or additional matters as will enable the parties to accomplish any object agreed upon between them relating to the use, operation, service, management, control, sale, lease, purchase, extension, improvement, rates, value, or earnings of such properties.

"The corporation also is charged with the duty of surveying resources for the production and distribution of light, heat, water, and power 'for the purpose of recommending a statewide plan for the most practicable means of securing an economical development of such resources and facilities and as will, in the opinion of the board, best secure for industrial, transportation, agricultural, and domestic uses an abundant and cheap supply of these essential services."



The Latest Utility Rulings

Washington's Profit-Sharing Electric Rate Decree Is Modified

PROBABLY the most significant of a number of rather important regulatory decisions handed down during the fortnight from June 6th to June 20th was the decision of the public utilities commission of the District of Columbia to modify the rather well known "consent decree" entered in 1924 in the supreme court of the District against the Potomac Electric Power Company. The background and subsequent operation of this decree, which constitutes a unique experiment in rate regulation, was discussed in a contributed article by Mr. Aaron Hardy Ulm in the November 27th (1930) issue of PUBLIC UTILITIES FORTNIGHTLY.

It appears that prior to the decree, the District and the company were involved in expensive and protracted litigation over valuation and other complicated matters of regulatory routine. Incidentally, at that time the domestic rate per kilowatt hour for electricity in Washington was 10 cents. The decree fixed a definite rate base and provided that all earnings by the company in excess of 7 per cent should be shared equally by the company and by the customers by way of rate reductions. As a result the company appears to have prospered greatly, averaging a 10 per cent return during the years 1925-1930. The customers also prospered because rates were automatically reduced each year until in January, 1931, the Washington rate of 4.2 cents per kilowatt hour was said to be the lowest rate for fuel generated residential electric service in the country.

But the company's high earnings an-

nnoyed the local press. Low as rates were, it argued, they could and should be still lower if the utility's high profit could be cut down. The People's Counsel for the District started proceedings to have the consent decree of 1924 limited. In order to preserve the advantages of automatic reduction and profit sharing, a modification of the decree rather than its complete abrogation was urged. The commission concurred with this view and ordered the decree modified as follows:

"If the rates hereafter yield more than 7 per cent in any 12-month period, on the rate base for that period, determined as aforesaid, the excess over and above the said 7 per cent shall be used in a reduction of rates to be charged the public for electric service thereafter as follows:

"If the said excess shall be not more than one per cent of the rate base, rates for the following twelve months, based upon the business done during the twelve months in which such excess occurred, shall be adjusted so that the gross receipts of the company shall be reduced by one half of such excess; if the said excess shall be more than one per cent and not more than 2 per cent of the rate base determined, as aforesaid, then, in like manner three fourths of the said excess shall be used for the reduction of rates; if the said excess shall be greater than 2 per cent of the rate base, five sixths of the excess shall be used in like manner for the reduction of rates."

Then follow similar provisions for increasing rates in event the company's revenues should fall below 6½ per cent. The company has announced its intention to appeal to the courts from the commission's decision. *Re Potomac Electric Power Co. (D. C.) Formal Case No. 225, Order No. 919.*

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A Voluntary Electric Rate Reduction for New York City

OF more far reaching immediate consequence than the District of Columbia decision, mentioned above, was the opinion of Chairman Maltbie, of the New York Public Service Commission, in fixing rates for the four large electric utilities rendering service to New York city and the immediate vicinity.

As Chairman Maltbie expressed it:

"The fundamental purpose of the negotiations started over a year ago which culminated in an offer by Mr. Sloan to reduce rates from \$5,500,000 to \$6,000,000 annually was to obtain, without the long delay and the great expense which a formal rate case would involve, a substantial and immediate reduction in electric rates. So far as I know, there has never been, in the history of the electric industry in the United States, such a large voluntary reduction as proposed by Mr. Sloan. While the rates fixed by the commission may require adjustment as proved by experience, they should be put into effect immediately, in order that the large reduction offered by the companies be no longer delayed."

The main points of the opinion were the desire of the New York commission to establish uniformity between the schedules of all the companies now serving greater New York city under diverse and complicated rates, the commission's recognition of the fact that this uniformity could not be accomplished without increasing the bills of some customers, and finally the conclusion that a monthly "minimum" rate, rather than a "service charge" or a "flat rate" was the best present form for domestic service.

The commission did not approve of the rates exactly as proposed by Mr. Sloan, because they contained a separate service charge. Chairman Maltbie stated:

"The fundamental difficulty with all service charge estimates arises from two main considerations. In the first place, no plant was ever designed or constructed merely to supply a few kilowatt hours per customer. Hence, any attempt to estimate customer costs requires certain assumptions. Conditions are pictured that have never been realized in actual experience.

"The other main consideration is that rate making, whether for utilities or for competitive and private business, is never a mathematical application of a theoretical principle. In every business, there is always a large percentage of customers, who are served at less than cost, for the reason that it has been found impracticable to devise and apply a system of cost accounting and computation which would carry out the principle literally; and if it were done, it would result in such an elaborate and complicated schedule of rates that the public could not understand it and few could apply it. Customers would be irritated, and where possible, would use alternative services or buy of competitors."

The chairman concluded that *"the fundamental objection to the service charge is not so much economic or accounting as it is psychological."*

The opinion found even greater fault with a flat rate by which a customer using no current pays nothing notwithstanding the expense to the company of standing ready to serve him. For these reasons it was decided to place into effect a minimum charge of \$1 per month, including 10 kilowatt hours of service, plus a block rate of 6 cents per kilowatt hour for the next 5 hours and 5 cents per kilowatt hour for all current consumed thereafter. The commission's rates will reduce the bills of all customers using in excess of 7 kilowatt hours. *Re New York Edison Co. et al. (N. Y.) P.U.R.1931C, 337* (appearing in full in the Public Utilities Reports section of this issue).



A Corporation Furnishing Water to Employees and Others Is a Public Utility

"BUY A LOT NOW IN THRIVING GOOD HOPE"

"Good Hope offers to persons of good character desiring to make homes for their families the following actual and contem-

plated projects: A church, a school, park and playground, drug store, talking movies, telephone, fire department, ice plant, sewerage, filtered water, etc."

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THE above notice published in the Good Hope (La.) *News*, February 8, 1930, by the Good Hope Realty Corporation was the point upon which turned a recent decision of the Louisiana commission requiring the General American Tank Car Corporation and its subsidiary, the Good Hope Realty Corporation, to continue to furnish water service to some 300 residents in the community of Good Hope. The General American had objected to the jurisdiction of the commission over itself on grounds that it was not a public utility, but had undertaken to render water service to certain portions of the territory sold by its subsidiary

merely as a part of its housing program for its own employees, that it had never held itself out to serve the public, and hence could discontinue service when it pleased. The Good Hope Realty Company likewise objected that it was not a utility. The commission found upon the above evidence that the two corporations had, in fact, held themselves out to serve the public and hence were public utilities subject to its jurisdiction. Service by these companies was accordingly ordered by the Commission to be resumed. *Good Hope Residents v. Good Hope Realty Corporation et al. (La.) No. 1597, Order No. 863.*



A Nebraska Railway Reaches the Point of Diminishing Return

DURING the last few years of hectic competition with the private and public automobile, a number of street railway carriers have reached that fatal stage of commercial operation called by the economists "the point of diminishing return." When a business reaches this point it does more harm than good to increase rates, because increased rates only drive more patrons to competitors and result in a greater loss of net revenue. A demonstration of this situation can be observed in the recent opinion of the Nebraska commission in permitting a street railway in that state to suspend traction operations. It stated:

"The commission believes and so finds that the Omaha & Southern Railway Company has been, and is now, operating at a loss to the owners of the property under the present schedule of rates and this examination of its affairs discloses operating conditions which have resulted in substan-

tial losses and these will be continued if further operation is required. The commission also finds that a schedule of fares necessary to pay a fair return on the fair value of property devoted to public use would be higher than the traffic would bear and only serve to bring about greater losses than those which have already been sustained. These conditions constitute an emergency which justifies the immediate suspension of service."

Protestants to the abandonment contended that since the applicant railway's parent concern was the Omaha & Council Bluffs Street Railway Company, the application should not be granted. The commission replied that to require continued operation of the subsidiary at the expense of the parent would have the effect of making passengers on the parent line pay part of the fares for passengers on the subsidiary line, which would be not only unfair but illegal. *Re Omaha & Southern Railway Co. (Neb.) Application No. 8722.*



The Capitalization of the Appreciation of Utility Assets Is Denied

DAVID E. Lilienthal, Wisconsin's new railroad commissioner, has recently handed down a decision that

seems destined to stir up much future thought and discussion in regulatory circles. It appears that the Mondovi

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Telephone Company, a small utility having a total capitalization of \$15,000 (all common stock), petitioned the commission for authority to issue additional stock so that the outstanding total "would equal or more nearly equal" the value of the property as found by the commission. The amount at issue was apparently small, but the principle involved became very important when the company claimed that the present-day value of its assets is more than four times \$15,000. In short, the company wanted to capitalize the apparent appreciation in assets over recorded costs. But how could such a wide discrepancy be explained?

Commissioner Lilienthal found three possible explanations: (1) contributions by customers; (2) irregular book-keeping resulting in the defraying of capital costs out of operation expenses; (3) the appreciation of present-day values over original or historical costs.

If the first were true, the commissioner argued, additional capitalization could not be allowed on the strength of customer donations since that point was recently decided by the state supreme court (*Wisconsin Hydro-Electric Co. v. Wisconsin Railroad Commission*, May 12, 1931). If the third hypothesis were correct (Commissioner Lilienthal seriously questions the bona fide appreciation of present-day values over historical cost to such a great extent as evidenced in this case), there is no constitutional restriction against a commission holding capitalization to an original cost basis. The law of the land requires that a *rate base* should reflect present-day values, but a *security base* is another matter. Furthermore, it would be unwise to capitalize appreciation resulting purely from fluctuation

of commodity values since there is no guarantee that the high price level now extant might not be succeeded by a price as low if not lower than that obtaining during the original financing.

But it is upon the second point that Commissioner Lilienthal makes his most original argument. The evidence showed that no new money had been put into the plant since original incorporation, yet it had continued to expand to its present status. Accordingly, there is a strong presumption that this expansion—properly a charge to capital investment—had been defrayed out of operating expenses and improperly charged in the utility's accounts to depreciation and maintenance. The opinion commented on this:

"Where a public utility incorrectly charges plant expenditures to maintenance and uses its depreciation reserve to build up its plant, rather than for retirements, we have another instance of customer contributions to the capital account of the company, but instead of being voluntary, as in the *Wisconsin Hydro Case*, it is involuntary. If, in the language of the statute, the 'financial condition' of a public utility whose plant account contains substantial customers' voluntary donations justifies us in refusing to permit capitalization of such contributions, surely equally strong reasons require a similar result in the case of involuntary contributions.

"We are not suggesting that the company's plant, in its entirety, is not its property. We are not suggesting that it holds any part of it in 'trust' for its subscribers."

As a result of the above conclusions, Commissioner Lilienthal, joined by his two colleagues, denied the application of the company for authority to issue additional securities to any extent beyond that warranted by earned and free surplus, which amounted to \$7,500. *Re Mondovi Telephone Co. (Wis.) S. B. 2461.*



Bus Service by a Pennsylvania Rail Carrier Is Approved

RECENTLY a number of state commissions have been called upon to determine the right of a rail carrier to put into operation supplemental bus service notwithstanding existing inde-

pendent bus service. The railroads usually urge in these cases that their proposed bus service is merely a variation of their existing rail service, and does not have the effect of creating any